Annual Report 1979

Consumers' Gas

Annual meeting The 131st Annual and a General Meeting of Shareholders will be held at 11:00 a.m., Monday, February 11, 1980 in the Town Hall Theatre, St. Lawrence Centre (adjacent to the O'Keefe Centre), 27 Front Street East, Toronto, Ontario.

Corporate profile

The Consumers' Gas Company is a major distributor of natural gas principally in communities in central and eastern Ontario. In 1971-1972, the Company expanded its participation in Canada's energy industry by acquiring an interest in approximately 22% of the shares of Home Oil Company Limited. Home is a Canadian oil and gas exploration and production company with its headquarters in Calgary, Alberta. In the eight year period ending September 30, 1979, Consumers' increased its equity position in Home to 48.2%. On December 21, 1979, Home became a wholly-owned subsidiary of the Company. The combined resources of Consumers' and Home will result in a financially strong and diversified group of companies that can more effectively participate in the energy industry in Canada and the United States.

Corporate goals

Shareholder: *'To provide the common shareholders with a reasonable return on invested capital.'*

Employee: *'To provide secure employment with just compensation in an environment which recognizes the dignity of the individual and provides opportunity for achievement.'*

Social: *'To conduct the affairs of the Company in a manner that is responsive to the needs of a rapidly changing social environment.'*

Highlights

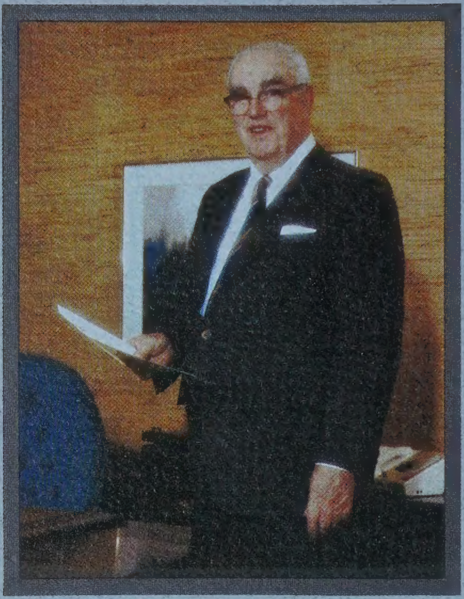
Contents

The Consumers' Gas Company	Years ended September 30 1979	1978
Basic earnings per common share		
Income before extraordinary items	$2.42	$2.29
Net income	$2.46	$2.46
Dividends declared per common share	$1.32	$1.14
Net income	$53,790,000	$53,625,000
Total revenues	$820,362,000	$743,288,000
Total assets — year end	$1,166,548,000	$1,019,530,000
Volume of gas sold (million cubic feet)	303,596	309,575
Number of active customers — year end	588,178	558,598

The Corporate profile on the facing page indicates the heightened significance of the activities of Home Oil Company Limited to the affairs of Consumers'. Accordingly, Home's highlights for the nine months ended September 30 are presented below.

Home Oil Company Limited	Nine months ended September 30 1979	1978
Net earnings before extraordinary items	$35,413,000	$26,002,000
Net flow of funds from operations	$84,117,000	$66,565,000
Total revenues	$188,526,000	$147,518,000
Exploration expenditures	$60,651,000	$48,007,000
Development expenditures	$43,874,000	$28,879,000
Crude oil production (barrels per day)	27,363	27,066
Natural gas liquids production (barrels per day)	3,165	3,176
Natural gas sales (thousand cubic feet per day)	140,205	121,011
Sulphur sales (long tons)	54,249	49,897

Report to shareholders



J. Douglas Gibson, O.B.E., Chairman of the Board

Your Company has experienced many important changes in its 131 year history, but perhaps none has been as significant to its future as the event which occurred on December 21, 1979. On that date the businesses of Consumers' and Home Oil Company Limited were effectively combined to lay the foundation for the development of a dynamic and financially strong diversified energy group of companies. This was achieved through the amalgamation of Home and Cygnus Corporation Limited in a manner which resulted in the amalgamated company becoming a wholly-owned subsidiary of Consumers'. Home is a Canadian petroleum and natural gas company engaged primarily in the exploration for and the production of hydrocarbons and its activities are described more fully elsewhere in this report.

Consumers' first obtained an interest in Home in 1971 when it acquired 35% of the shares of Cygnus which in turn owned 14% of the shares of Home. In the intervening years this investment was increased to the point where, prior to the amalgamation, Consumers' owned, directly and through subsidiaries, 48.2% of the shares of Home.

The acquisition of the remaining shares of Home and Cygnus will result in a dramatic change in the balance sheet of your Company in the ensuing fiscal year, since the consolidated assets of the group will nearly double those reported by your Company prior to the amalgamation. Had Home been wholly-owned by Consumers' at September 30, 1979, total assets would have amounted to $1.8 billion. Of the $1.8 billion approximately $915 million relates to the distribution and sale of natural gas to residential, commercial and industrial customers primarily in Ontario and approximately $895 million primarily to oil and gas exploration and production in Western Canada.

Consumers' acquisition of Home comes at a time of challenge because, although Canada is rich in its sources of energy, particularly natural gas, it is not self-sufficient in terms of its consumption of oil. Already Canada is a net importer of crude oil and current projections indicate that dependence on foreign oil sources will increase to a point where, in the late 1980's, the cost of the net deficit at an assumed price of $40.00 a barrel could well exceed $10 billion a year. This can be prevented with the introduction of economic incentives designed to encourage an increase in the production of crude oil from traditional domestic sources and the development of frontier resources and enormous deposits of heavy oils and oil sands. For Canada, self-sufficiency in oil will depend on the petroleum industry's ability to finance capital expenditures which are estimated by the Canadian Petroleum Association to exceed $200 billion in the 1980's. These expenditures can be justified in Canada within the limits of the prices that the world is currently paying for its crude oil supplies. However, the governments of Canada and Canadians must be prepared both to permit domestic oil prices to approach international levels, provided they do not

W. P. Wilder, President and Chief Executive Officer

exceed 90% of the Chicago price within the next five years, and to maintain the industry's share of increased revenues so that the financial capacity is available to the industry to increase the supply of energy to Canadians.

Home possesses a number of significant corporate strengths which will enable it to participate in the market growth which must occur in the producing sector of the industry. These include:

– a growing cash flow based on the production of high quality reserves of oil and gas;

– extensive exploration properties strategically located in the foothills and deep basin areas of Alberta and British Columbia;

– significant quantities of shut-in gas reserves to dedicate to new markets;

– a diversified mix of short and long term projects such as the Elk River coal project and an Athabasca Oil Sands lease; and

– a competent technical, operating and administrative staff of 1,119 employees.

Home's investment strategy is designed to capitalize on these strengths and emphasizes conventional oil and gas exploration and development in the current producing regions of Canada where there are opportunities to achieve improved results and to obtain near term markets. Activity in Canadian frontier regions, the development of an oil sands lease and investigation of the potential of heavy oil and coal properties provide longer term opportunities.

There are, of course, other steps which must be taken if Canada is to achieve energy self-sufficiency in the next decade. The consuming public must be encouraged to use natural gas as a substitute for oil wherever possible and more attention must be given to conservation and the development of new and improved methods of using conventional fuels. Consumers', as a major supplier of natural gas in Ontario and Quebec, serves an area containing more than 18% of the total Canadian population and therefore has a vital interest in promoting the efficient use of its product. In 1979, 13,500 new customers were added as a result of conversions from other fuels to gas. This is an increase of 166% over the number of conversions in 1978 and it is expected that a further increase will occur in the 1980 fiscal year. While these increases are impressive, we believe that ongoing government policies designed to encourage the use of natural gas will provide the Company with the opportunity to make more significant inroads into the unserved markets within its franchised area, which it estimates has a potential for the sale of an additional 30 billion cubic feet, or an increase of 10% over the present sales volumes. Sales in this order of magnitude are equivalent to a saving of approximately 5 million barrels of oil a year.

The diversified oil and gas interests which your Company now possesses, coupled with its business as a supplier of natural gas to the consuming public, open up a prospect for growth which should benefit the shareholders and employees of the enlarged organization.

Your Company achieved a satisfactory improvement in basic earnings per common share which increased from $2.29 in 1978 to $2.42 in 1979.

The increase in earnings is attributed largely to earnings growth reported by Home and to Consumers' increased participation therein during the fiscal year. The earnings contribution from utility operations was adversely affected by the impact of inflation on the cost of providing service, a reduction in the volumes of gas sold and the continuing high levels of interest rates. While the Company was unable to recover increases in the cost of doing business in 1979, a Decision issued by the Ontario Energy Board on August 31, 1979 determined that the Company was entitled to increase its rates by $15.6 million annually to recover such costs, commencing on October 1, 1979. This increase in rates will, therefore, contribute to the earnings of your Company in its 1980 fiscal year.

In the process of the amalgamation transaction, approximately 86% of the Home and Cygnus shares were tendered for approximately 13.9 million Consumers' voting convertible shares. This increase in the distribution of Consumers' equity represents an expression of confidence in the Company and its future. In addition to these new shareholders, your Board wishes to acknowledge the added strength which the Board of Directors of Home and its 1,119 employees will bring to the Consumers' family of companies.

In the past year, several changes have occurred in the composition of your Board of Directors. R. H. Carley, Q.C., a Director for 17 years, resigned upon his appointment as County Court Judge of Northumberland and Durham, and G. W. Carpenter, P. Eng., Executive Vice President and a Director, entered retirement after 17 years of service with the Company. The Board expresses its appreciation for the contributions which these gentlemen have made over the years and offers its best wishes to them in their new endeavours. A welcome is extended to Dr. G. C. A. Cook, Mr. J. K. Grant and Mr. G. C. Gray who were appointed to the Board in 1979. They bring with them a wealth of knowledge and experience which is already benefiting the Company in the conduct of its affairs.

The dedicated teamwork of the many responsible people who constitute our work force has made the 1979 fiscal year one of significant achievement. To all of them a vote of thanks!

On behalf of the Board.

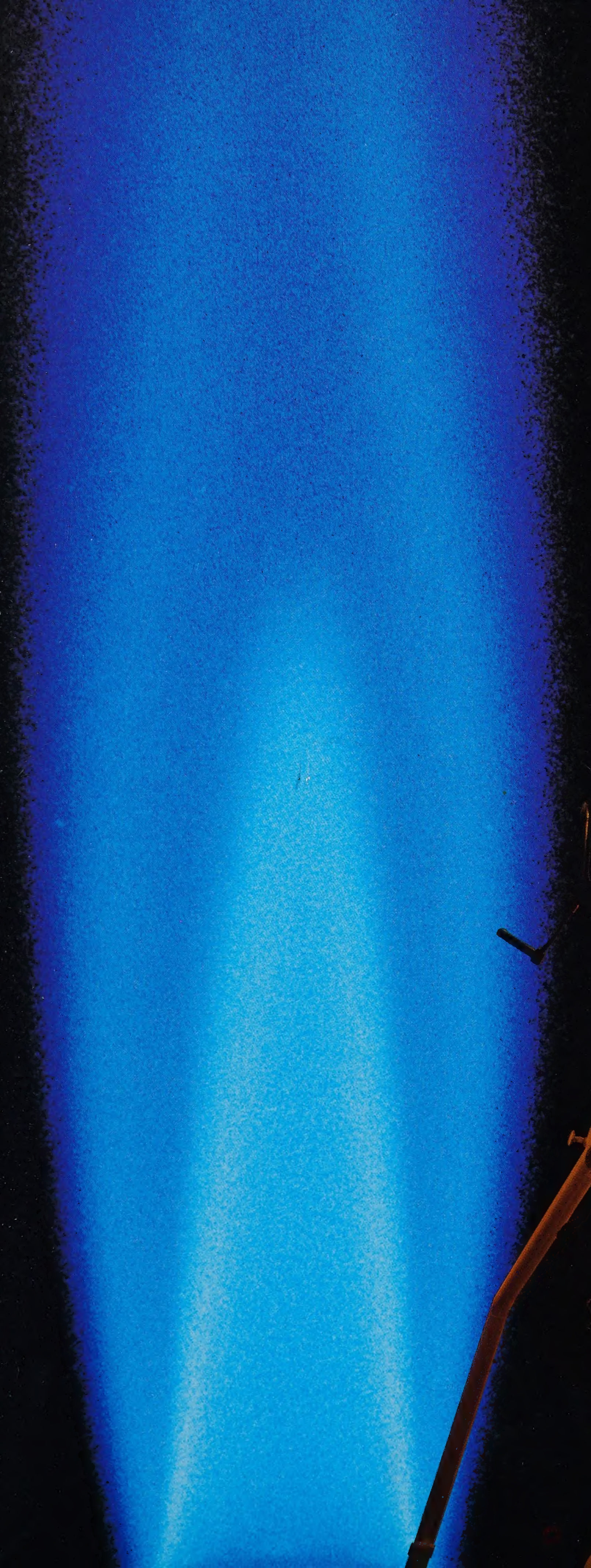
J. Douglas Gibson

Chairman of the Board

W. P. Wilder

President and Chief Executive Officer

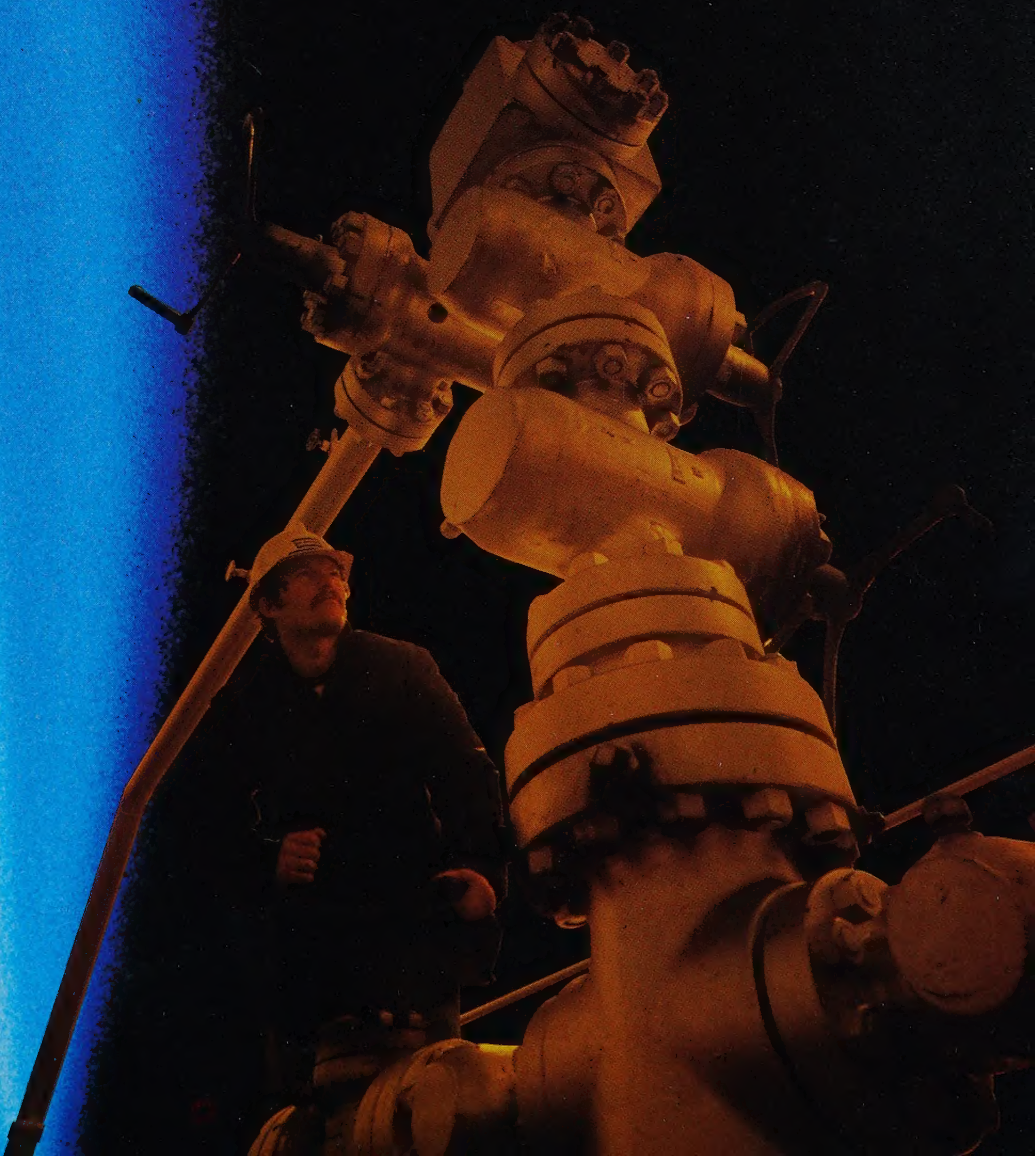
January 7, 1980



Report on operations

Utilities

Home Oil




STORAGE LTD

Consumers' is one of the largest natural gas distribution utilities in Canada serving approximately 588,000 customers primarily in central and eastern Ontario. The Company, in its continuing goal "to provide customers with a high level of service at a reasonable cost", has defined several objectives for its utility operations, the more important of which are as follows:

* To ensure that a supply of natural gas is available at reasonable cost to meet market demands at all times.

* To optimize marketing opportunities for the sale of gas with due regard for the conservation ethic and changing customer attitudes.

* To maximize productivity in a manner consistent with customer service needs and the safety and integrity of the utility system.

* To facilitate the recovery of uncontrollable increases in costs by making timely and adequate submissions to regulatory authorities.

These objectives are reflected in many of the activities described in this Report on Utility Operations.

Gas supply

The Company sells natural gas to residential, commercial and industrial customers in areas of central and eastern Ontario, in and around Hull, Quebec, and in northern New York State. The areas served in Ontario and Quebec have a population of over 4,500,000, more than 18% of the total Canadian population.

The right to conduct business in these areas carries with it the responsibility to ensure that an adequate supply of natural gas will be available to meet market demands well into the future. To this end the Company purchases almost all of its supply from TransCanada PipeLines Limited under long term contracts. The major contracts provide for the delivery of up to 304 Bcf of gas per year until at least 1995, subject to the Company's right to reduce maximum contract volumes to 295 Bcf in any contract year. A contract with TransCanada also provides for the delivery of up to 6.5 Bcf annually until 1987 to St. Lawrence Gas Company, Inc., a wholly-owned subsidiary which distributes gas in northern New York State. As a result of the National Energy Board's recent export decision, an additional contract with TransCanada will provide for an increase in annual deliveries up to a total of 9.6 Bcf annually until 1987.

Continuing customer conservation efforts and a weak Canadian economy have resulted in a decline in the historical growth rates in demand for natural gas. In addition, the volume of gas delivered to Ontario Hydro for use at the R. L. Hearn Generating Station has declined from 45.9 Bcf in 1977 to 29.6 Bcf in 1978 and to 21.4 Bcf in 1979, and it is anticipated that deliveries will be no more than 5 Bcf annually in future years. Reduced deliveries to the Hearn Station result from both a decline in the demand for electrical generating capacity and the relatively low cost of burning imported coal which can also be used at this generating plant.

These reductions in the market demand for natural gas may place the Company in a

The distribution of natural gas is highly capital intensive with over $694 million invested in property, plant and equipment. Shown are some of the above ground facilities of Tecumseh Gas Storage Limited which is 50% owned by Consumers'. The underground storage of gas is an integral part of gas supply operations.


Natural gas is stored underground in porous rock formations.

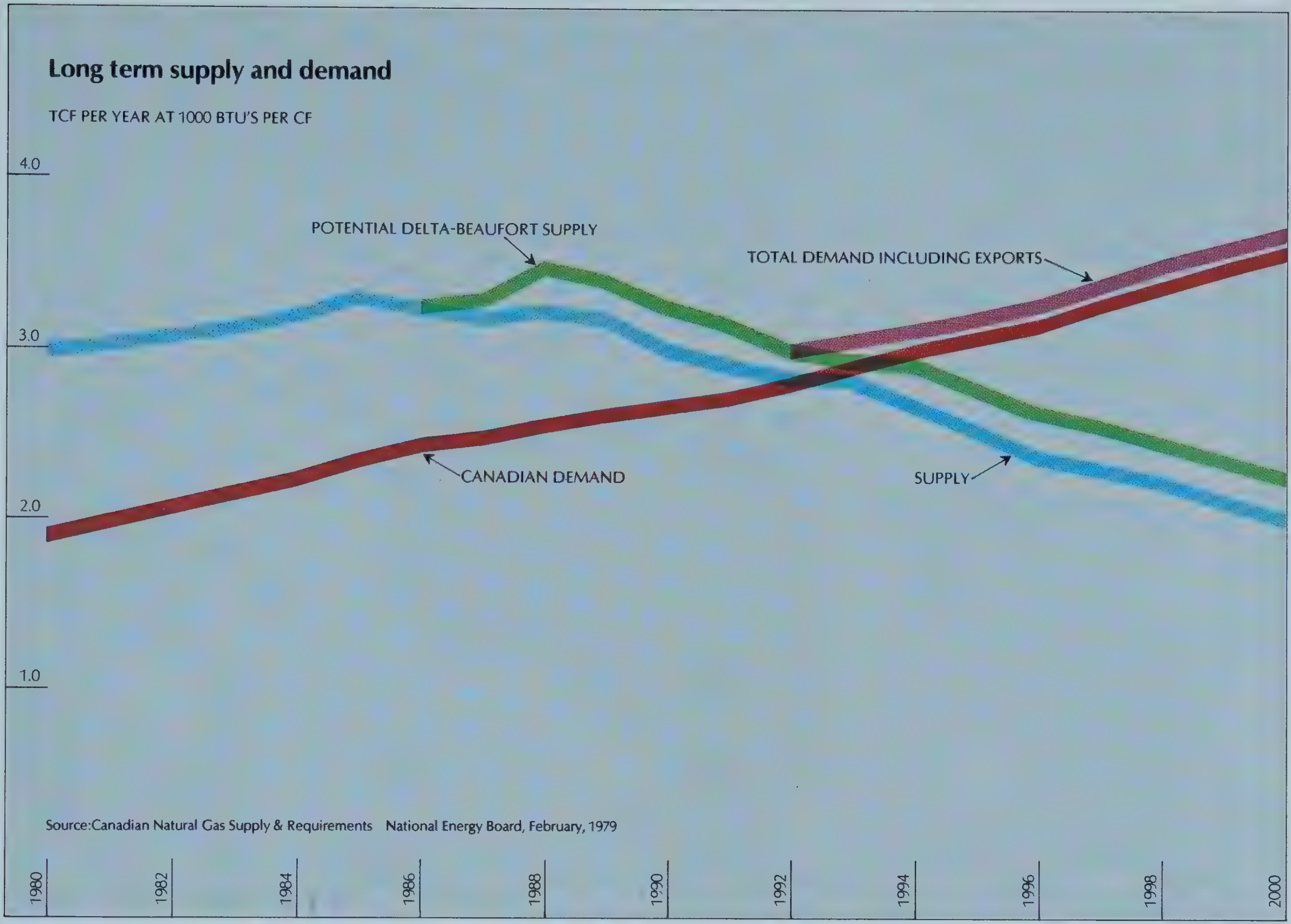
position where it will be unable to take delivery of the total volumes of gas it has under contract with TransCanada in each of the next two or three years. TransCanada's rate structure contains a fixed cost component which would effectively increase the unit cost of gas purchased when volumes actually taken fall below maximum contract volumes. To date the Company has been able to avoid any of these increases in unit costs by additional sales to present customers, adding new customers, participating in export arrangements and through increased utilization of underground storage facilities. The Company has also exercised its right to reduce total annual contract volumes by 9 Bcf in each of the next two contract years. Should the Company experience an increase in the unit cost of gas as a result of its inability to take delivery of maximum volumes under contract, the Ontario Energy Board determined in its August 31st Decision that such increased cost may be deferred in the year incurred and amortized over the following three years.

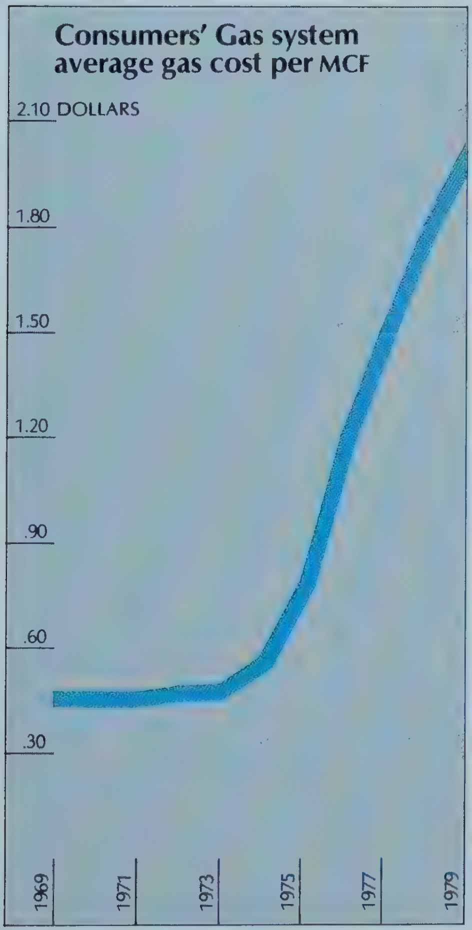
The Federal Government continues to index the price of gas to the price of oil at the Toronto City Gate, under the provisions of the Petroleum Administration Act. On August 1, 1979 the Toronto City Gate base price increased from approximately $2.00 per Mcf to $2.15 per Mcf. Further significant increases are anticipated during 1980, but the magnitude and timing of these increases are uncertain at the present time.

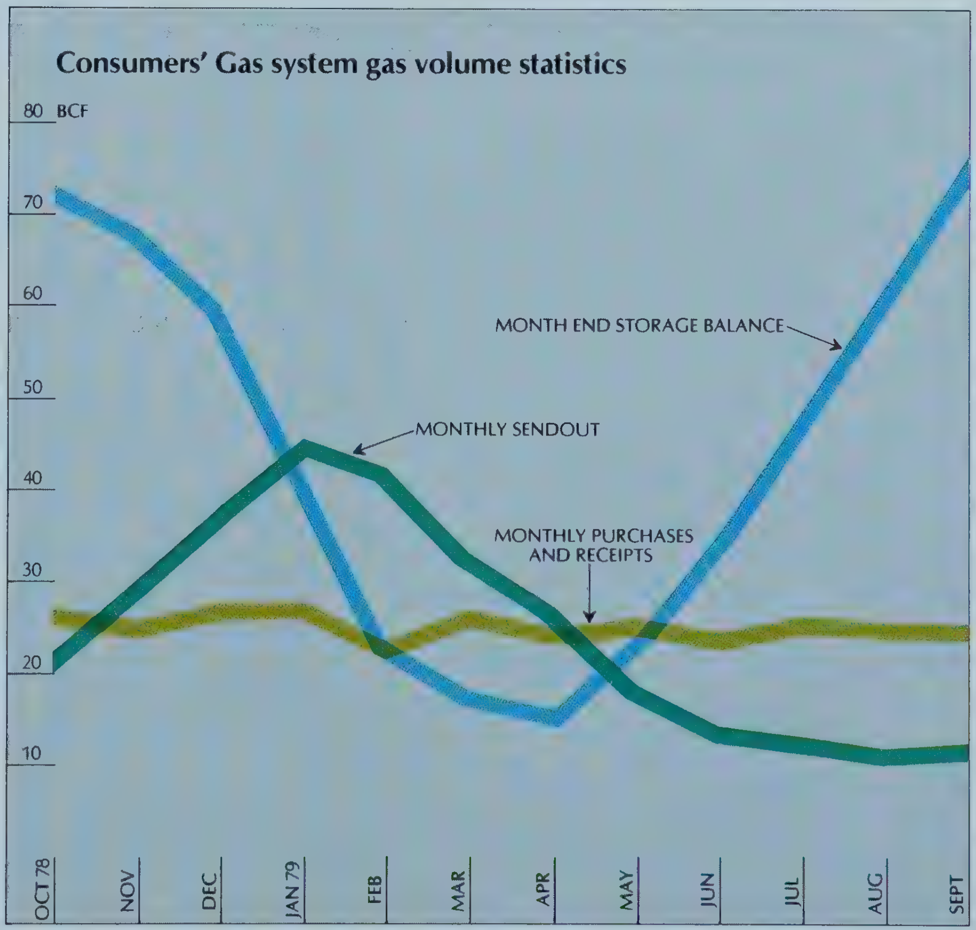
Underground storage facilities continue to play a very important role in the gas supply operation of the Company. The availability of underground storage enables the Company to meet fluctuating daily market demand with a relatively constant daily supply of gas purchased from TransCanada. The resulting high load factor produces the lowest possible unit rate under the TransCanada tariff. Tecumseh Gas Storage Limited, jointly owned by Consumers' and Imperial Oil Limited, has storage facilities near Sarnia, Ontario and provides Consumers' with a working storage capacity of approximately 60 Bcf. Smaller storage facilities in the Niagara Peninsula and a long term agreement with Union Gas Limited provide up to 8.5 Bcf of additional capacity.

Consumers' is continuing to explore for gas and oil in southwestern Ontario and Lake Erie. The gas produced from these sources represents only about 1% of the Company's total annual requirements, but it is considerably less expensive than the gas purchased from TransCanada. During 1979, Underwater Gas Developers Limited, a wholly-owned subsidiary, drilled 70 exploratory wells on Company-owned acreage in Lake Erie, of which 24 were completed as potential commercial gas producing wells. Underwater Gas also undertakes contract drilling for others in Ontario and the northeastern United States.

In February, 1979, the National Energy Board released its report on Natural Gas Supply and Requirements which was prepared following a public hearing held in late 1978. In this report the Board concluded that the total estimated demand for natural gas in Canada can be


Long term supply and demand
TCF PER YEAR AT 1000 BTU'S PER CF
4.0
3.0
2.0
1.0
POTENTIAL DELTA-BEAUFORT SUPPLY
TOTAL DEMAND INCLUDING EXPORTS
CANADIAN DEMAND
SUPPLY
Source:Canadian Natural Gas Supply & Requirements National Energy Board, February, 1979
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000


Consumers' Gas system average gas cost per MCF
2.10 DOLLARS
1.80
1.50
1.20
.90
.60
.30
1969
1971
1973
1975
1977
1979


Consumers' Gas system gas volume statistics
80 BCF
70
60
50
40
30
20
10
MONTH END STORAGE BALANCE
MONTHLY SENDOUT
MONTHLY PURCHASES AND RECEIPTS
OCT 78
NOV
DEC
JAN 79
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEPT

met by supplies from conventional producing areas well into the 1990's. When frontier reserves are taken into consideration, the long term outlook for the natural gas industry in Canada is most favourable. The National Energy Board has recently approved increases in the volumes of natural gas which may be exported to the United States. An additional 3.75 trillion cubic feet of gas, which is considered surplus to Canadian needs in the foreseeable future, may be exported over an 8 year period beginning January, 1980. In the short term the export of surplus gas will not only help to improve Canada's balance of payments and bolster the value of its dollar, but also provide the industry with an incentive to develop additional reserves for future domestic markets.

Marketing

A growing public awareness that natural gas represents the most secure, convenient and least costly source of energy available to Canadians in the next 10 to 20 years has resulted in an unprecedented demand for gas service in 1979. This awareness has been heightened by the recognition that while Canada has a plentiful supply of natural gas it is not self-sufficient in its supplies of oil and could experience shortages at least until it is able to accelerate production from resources that are more costly to develop. These resources cannot be developed economically unless the price paid by Canadians for domestic oil is allowed to escalate towards international levels. Governments and the media have stressed the oil dilemma in the last 12 months and have emphasized the use of natural gas as a preferable substitute.

The increased interest in natural gas has resulted in a record number of customer additions, bringing the total number of customers served from 559,000 at September 30, 1978 to 588,000 at September 30, 1979. Requests for service were heaviest in the latter half of the fiscal year with the greatest demand coming from the residential sector. Conversions from other fuels to gas increased significantly during the year and it is anticipated that this trend will continue in the foreseeable future. It is estimated that there are in excess of 120,000 residences in the Company's franchised area not using gas, which can be economically serviced from the existing distribution network. The Company is gearing its resources to meet the expected increase in business activity in 1980 and to ensure that requests for service will be handled as quickly and efficiently as possible.

During the year Consumers' introduced gas service to the communities of Cookstown, Petawawa and Huttonville.

The volumes of gas sold in 1979, including sales to the R. L. Hearn Generating Station, amounted to 304 Bcf compared to 310 Bcf in 1978. Slightly warmer weather in 1979, a reduction of over 8 Bcf in deliveries to Ontario Hydro's R. L. Hearn Generating Station, and continuing customer conservation efforts more than offset the gains in sales volumes which resulted from the addition of 38,000 new customers during the year.

A variety of gas and electrical appliances are sold through 25

The Company endeavours to provide its customers with efficient service at reasonable cost. A boiler is being delivered for installation in one of the many apartment buildings served by Consumers'.

An energy source is only dependable if it is backed by responsible people. To develop and maintain a high level of technical competence, the Company provided training programs for 861 of its employees in 1979.

Company-owned stores and service centre display areas and Consumers' merchandise finance plan is available to purchasers whether or not they use gas. Gross revenue derived from the sale of appliances increased from $8,600,000 in 1978 to $10,600,000 in 1979.

Residential markets

The principal uses of natural gas in the residential market are space and water heating, and to a lesser degree, cooking, clothes drying and miscellaneous applications.

The residential market accounted for 73.5 Bcf, or approximately 24%, of total volumes of gas sold in 1979, a decrease of 0.7 Bcf from volumes sold in 1978. The decline in volume was caused by warmer weather in 1979 compared to 1978 and further conservation efforts by the consumer. The impact of these factors, however, has been largely offset by the connection to the system of a record number of new residential customers. Of the new customers in this category, approximately 13,500 resulted from conversions from other fuels to natural gas and 19,500 resulted from new residential construction. The increase in the number of conversions represents a trend which should continue throughout the coming fiscal year. The Company continues to install natural gas in nearly 90% of new homes constructed in its franchised areas.

Commercial and industrial markets

In commercial markets, natural gas is used for space and water heating, commercial processing and cooking, and air conditioning. Sales in this market sector accounted for one-third of sales volumes in 1979. Despite an increase of 3,200 customers in this category during the year, warmer weather, the impact of conservation programs and continuing poor economic conditions have resulted in the volumes of gas sold in this category remaining virtually unchanged from 1978.

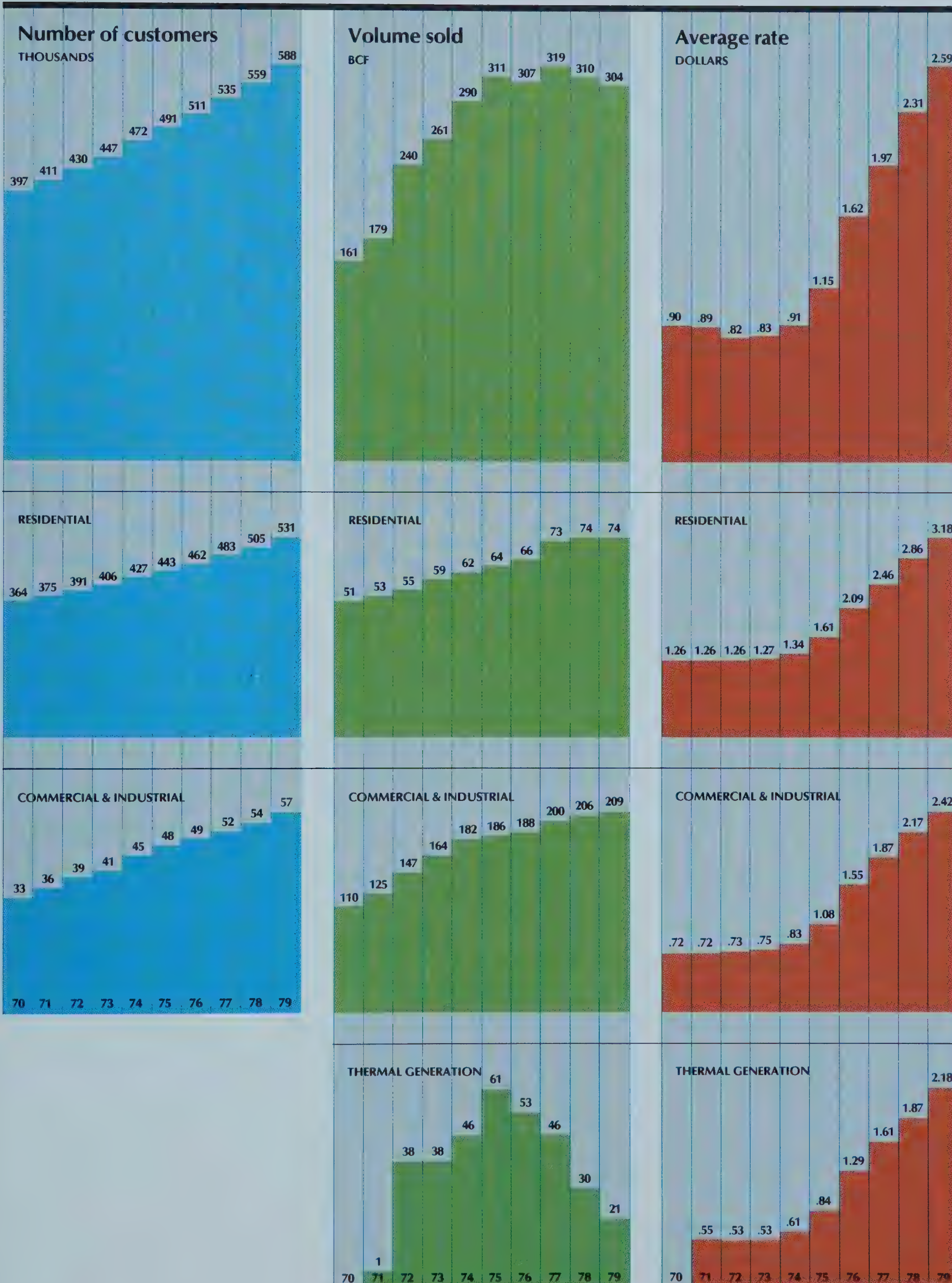
In the industrial market, natural gas is used in manufacturing processes and for space heating. Consumption in this market sector accounted for 35% of 1979 sales volumes. Volumes sold increased by 3.2 Bcf to 107.6 Bcf, a marginal increase over the previous fiscal year.

The sale of natural gas in commercial and industrial markets continues to be sensitive to both general economic conditions and the price of natural gas in relation to fuel oil. However, the competition from an over-supply of heavy residual fuel oil, which has been available to industrial and commercial customers with equipment that can be fired with either gas or oil, has declined considerably. While these markets are relatively mature, sound prospects exist for increasing sales to small and medium-sized commercial and industrial consumers.

Thermal generation

The Company's largest customer, Ontario Hydro, has purchased natural gas for use at the R. L. Hearn Generating Station in Toronto since 1971.

The reduction in deliveries to Hearn, in 1979 and beyond, are described more fully on page 7 of this report. The reductions


Number of customers
THOUSANDS
397 411 430 447 472 491 511 535 559 588
RESIDENTIAL
364 375 391 406 427 443 462 483 505 531
COMMERCIAL & INDUSTRIAL
33 36 39 41 45 48 49 52 54 57
70 71 72 73 74 75 76 77 78 79
Volume sold
BCF
161 179 240 261 290 311 307 319 310 304
RESIDENTIAL
51 53 55 59 62 64 66 73 74 74
COMMERCIAL & INDUSTRIAL
110 125 147 164 182 186 188 200 206 209
THERMAL GENERATION
1 38 38 46 61 53 46 30 21
70 71 72 73 74 75 76 77 78 79
Average rate
DOLLARS
.90 .89 .82 .83 .91 1.15 1.62 1.97 2.31 2.59
RESIDENTIAL
1.26 1.26 1.26 1.27 1.34 1.61 2.09 2.46 2.86 3.18
COMMERCIAL & INDUSTRIAL
.72 .72 .73 .75 .83 1.08 1.55 1.87 2.17 2.42
THERMAL GENERATION
.55 .53 .53 .61 .84 1.29 1.61 1.87 2.18
70 71 72 73 74 75 76 77 78 79

present the Company with the challenge of aggressively seeking new markets to offset this loss of volumes of gas sold.

Regulation

The rates which the Company charges its customers in Ontario for the supply of natural gas are subject to the approval of the Ontario Energy Board. The regulatory process involves a searching examination of the Company and its affairs to satisfy the Board that the rates charged customers are fair and reasonable. Because the Company is dependent upon the Board for the timely approval of rates, a determined effort is made to ensure that the Board has at its disposal sufficient information to understand readily the complexities and problems of the natural gas distribution business.

Over the last several years the Company has experienced dramatic increases in its cost of purchased gas. In addition, the impact of inflation on the cost of providing utility service has more than offset the significant productivity gains the Company has achieved. In these circumstances, the Company has had to seek approval for appropriate increases in rates charged to its customers.

On August 3, 1978 the Company applied to the Ontario Energy Board for permission to increase its rates to recover increases in the cost of doing business that had occurred in 1978 and that were expected to occur in 1979. In its Reasons for Decision dated August 31, 1979, the Board used a 1979 test year to determine that the Company's year-end net investment in Ontario utility assets (the rate base) was $810.7 million, that a fair and reasonable rate of return on the rate base was 10.34% and that the Company was entitled to increase its rates to generate additional gross revenue in the amount of $15.6 million annually. Included in the 10.34% return was a provision for a 14% return on common shareholders' equity. The Board permitted the Company to increase its rates effective October 1, 1979 to reflect the Decision.

In its Decision the Board also determined that any increases in the unit cost of gas which may result from Consumers' inability to take all of its contracted-for volumes from TransCanada should be deferred in the Company's accounts and amortized over a three-year period. The Board has suggested that the Company propose, at rate hearings to be held early in 1980, a method for incorporating this cost in customer rates in the event that such costs are incurred in the future.

The Ontario Energy Board approved on an interim basis an increase in the Company's rates effective September 1, 1979 to recover an increase of 13.567¢ per Mcf in the cost of gas purchased by the Company from TransCanada, which occurred on August 1, 1979. The benefit of gas purchased at lower rates and held in storage on August 1st will offset the month's delay in the implementation of Consumers' higher rates and the balance of the inventory credit will be given to customers during the 1979-1980 winter heating season.

Conversions from other fuels to gas increased by 166% in 1979 and this trend will continue with the growing public awareness that natural gas is a secure and efficient source of energy.

To ensure that customers will continue to receive maximum value for their energy dollar, Consumers' participates in many research programs sponsored by the natural gas industry.

Operations

The operation of a gas distribution utility requires the long term investment of large sums of money in property, plant and equipment. At September 30, 1979, Consumers' net investment in over 15,000 kilometers of main, meters, services and other facilities associated with the distribution and sale of gas exceeded $694 million.

During the fiscal year, the connection of new customers to the system required capital expenditures of $35 million. An additional $7 million was expended on alterations and replacements to ensure continuity and reliability of service and to accommodate general municipal improvements. In addition to these capital expenditures, the Company invested in exploration activity, gas equipment for rental to customers and other general plant. Total capital expenditures in 1979 amounted to $71.5 million and it is anticipated that $96 million will be spent in 1980.

While the level of capital expenditures has risen due to the increasing number of customer additions and increases in the cost of labour and materials, the Company has controlled the costs of providing service to new customers and in some cases has even reduced them. For example, technical and productivity improvements have reduced the average cost of laying a metre of main in Metropolitan Toronto from $48.08 at the beginning of the 1970's to $20.26 in 1979. In the same period the average cost of a residential service which connects the main to a customer's home has risen from $448.18 to $703.70 or by 57% in a period when inflation has increased price levels by almost 100%. These examples demonstrate that the Company and its employees are developing better ways and means of getting the job done.

Operating and maintenance costs amounted to $62.1 million in 1979, an increase of $3.2 million or 5.4% over last year. These costs include customer service, engineering and planning, billing and collection, accounting functions, marketing, purchasing material and supplies, research and development, personnel administration, computer operation and the cost of general administration.

The Company's success in controlling these costs while at the same time maintaining high quality service to its customers is demonstrated by the relatively low percentage increase when compared with the increase in the Consumer Price Index which amounted to 9.6% in the same period. Operating and maintenance costs measured on a per customer basis remained virtually unchanged from the previous fiscal year at $105.52 in 1979 compared with $105.37 in 1978, providing additional evidence of the effectiveness of the Company's productivity improvement programs.

An efficient support staff is an essential ingredient in providing the customer with prompt reliable assistance. All employees, including those shown here in the customer service department, are encouraged to think innovatively in order that quality service may be provided at the lowest possible cost.

Other activities

Research activity is an essential ingredient in the development of less costly techniques for supplying and using conventional fuels. The Company contributes to the advancement of technology in the gas industry through programs conducted at a number of research establishments including the Canadian Gas Research Institute, the Ontario Research Foundation, the Institute of Gas Technology and the Thermo Electron Corporation. During the fiscal year the Company participated in 46 research projects within the industry covering matters ranging from the analyses of alternate energy sources to the improvement of the seasonal efficiency of domestic appliances.

The Company continues to monitor the development of energy sources which may later substitute for natural gas or compete with it, such as solar assisted gas systems and the conveyance of low grade energy by water in pipelines. As part of this undertaking Consumers' is a partner in an experiment known as the Bruce Agri-Park project. The project involves a one-acre greenhouse complex located on the shores of Lake Huron near Ontario Hydro's power station in Bruce County, Ontario. Tests will be undertaken at this site to determine the viability of growing conditions in this area during winter months for crops such as cucumbers, tomatoes and strawberries. Provided all goes well in the first year, the next phase of the program will involve expanded green house facilities and the pumping of 105 to 140 degree Fahrenheit water from the nuclear reactor 12 miles away to warm both the hot houses and a commercial trout farm.

Personnel

Consumers' is keenly aware that its future success will depend largely upon the retention and development of capable and dedicated employees. The Company therefore endeavours to provide secure employment with just compensation in an environment which recognizes the dignity of the individual and the opportunity for achievement. Specialized training programs, educational assistance, career counselling and other programs have been designed to enable employees to realize their full potential.

Approximately 50% of Consumers' utility employees are represented by various union locals. Of the six collective agreements in force, five covering 924 employees will expire in 1980 and a sixth covering 586 employees will expire in January, 1981.

Home is a Canadian oil and gas exploration and production company with headquarters in the Home Oil Tower, Calgary, Alberta. Incorporated in 1929, its gross operating revenue from production in Canada, the United States and elsewhere exceeded $188 million in the nine months ended September 30, 1979.


home oil

Since 1971 Consumers' investment in Home Oil Company Limited has provided a valuable medium for participation in the growth of Canada's oil and gas industry. At September 30, 1979, Consumers' owned 48.2% of the company and on December 21, 1979 Home became a wholly-owned subsidiary of Consumers'. The combining of the businesses of Consumers' and Home provides a significant and direct presence in the oil and gas industry in Canada.

Home is a Canadian company engaged primarily in the exploration for, and development and production of, hydrocarbons. Approximately 80% of Home's oil production and substantially all of its natural gas production is from wells located in the province of Alberta. While exploration is conducted primarily in Alberta and British Columbia, Home participates in drilling, and has petroleum and natural gas interests in other areas of Canada, the United States and abroad. Other activities include the operation of two pipeline systems, marketing, transportation and underground storage of liquified petroleum gas (LPG), and mining.

Exploration

During the first nine months of 1979, Home's Canadian and foreign exploration program continued at a high level. Participation in 311 exploratory and development wells, mainly in the foothills of the Rocky Mountains and in central and western Alberta, resulted in 53 oil and 119 gas wells.

The Gold Creek area of western Alberta accounted for 43 wells, 36 of which were potential gas wells and one of which was an oil well and an active drilling program will be pursued in this field.

At September 30, 1979, 37 of the 311 exploration and development wells were still drilling and another 41 were awaiting completion or being tested. Among the wells still drilling, two are located in the Owl River-Wawa area to follow-up a significant gas discovery and five are located in the Gold Creek area. A well in which Home can earn an 18% interest is being drilled in the foothills at Moose Mountain in response to a significant gas discovery in this area. The company also has a 75% interest in a well which is being drilled on a similar structure seven miles to the south at Mount Barwell and a 50% interest in a third foothills well which is drilling at South Brule.

Frontier exploration currently centres on Home's 7½% interest in the drilling of Hekja A-72 in the Davis Strait. While drilling has been suspended until the 1980 drilling season, the well has encountered a gross sand section of at least 180 feet. Preliminary interpretations indicate that these sands contain hydrocarbons.

Home is actively pursuing oil and gas exploration and development opportunities in the United States.

Activity in the Gulf of Mexico includes a 15% interest in a natural gas field in the High Island Blocks 560/561, where production is expected to commence in 1981. Six development wells are awaiting completion and additional wells are planned in this field. Other offshore activities in the United States include a 20% interest in

In the first nine months of 1979, Home participated in the drilling of 311 exploratory and development wells, mainly in central and western Alberta and the foothills. Shown here are roughnecks working at Bragg Creek.

Natural gas must be conditioned before it can be sent to market. The processing plant at Carstairs is one of many owned by Home in Alberta and British Columbia.

the Texas Northeast Chevron field where production commenced in October, 1979, and additional development drilling is being undertaken. A well in which Home has a 45% interest was expected to start drilling in early 1980 on East Cameron Block 331 offshore Louisiana. The Block offsets a well where another company has encountered 150 feet of net oil pay.

In 1979 Home announced that it is leading a group of four companies in the exploration of a 3,340 square mile area in central Guyana. In addition, the company has a 27½% interest in about 1,000 square miles in western Australia where a seismic program is being undertaken to identify potential drilling sites. Home is continuing to participate in the NT/P2 Block located northwest of Darwin, Australia, where it has a 13% interest in an exploratory well to be drilled in 1980.

Production

Sales of crude oil and natural gas liquids (condensate, propane and butane), before the deduction of royalties and minority interest, averaged 30,500 barrels per day during the first nine months of 1979, compared with 30,200 barrels per day during the same period in 1978. Natural gas sales averaged 140 MMcf per day during the first nine months of 1979, compared with 121 MMcf per day in 1978. Sulphur sales to September 30, 1979, totalled 54,249 long tons compared with 49,847 long tons in 1978.

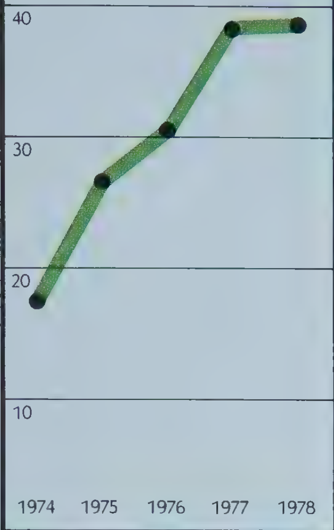
In recent years Home's crude oil production has declined as a result of lower production in some of the company's older fields. During the first nine months of 1979 this trend was arrested, primarily as a result of new production from the Fort St. John area of British Columbia and the West Pembina area of Alberta. The increase in natural gas sales during the first nine months of 1979 resulted mainly from the acquisition of Bridger Petroleum Corporation Ltd. in March of 1978.

During 1979, Home reorganized its oil and gas production function to create a new structure better able to deal with a large and expanding workload. This new structure, which includes a centralized engineering function, will enable Home to undertake more effectively assignments in all aspects of oil industry activities ranging from enhanced recovery techniques to heavy oil development and major construction projects.

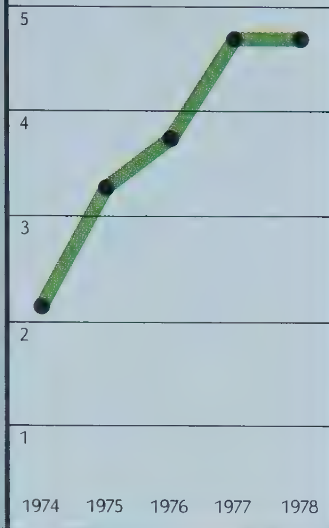
Drilling programs to increase production were continued at the Swan Hills Unit No. 1 oil field in northwestern Alberta and were initiated at the Carstairs-Elkton Unit No. 1 gas field in central Alberta. In March of 1980, the Leismer gas field is expected to be tied in for deliveries to Syncrude Canada Ltd. Average sales, net to Home, under the Syncrude contract will be 15.8 MMcf per day. Eight oil development wells were completed in the Fort St. John area of British Columbia and work on the waterflooding of the West Eagle oil field is expected to be completed in mid 1980.

On October 16, Home farmed out its controlling interest of 87½% in its bituminous sands lease near Fort McMurray to Gulf Canada Resources Inc. Under terms of the farmout agreement, Gulf will pay the

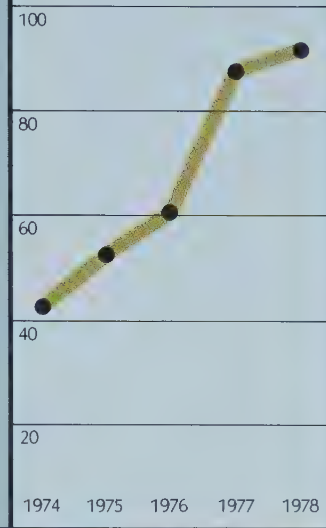
NET EARNINGS
Before extraordinary items
$ millions



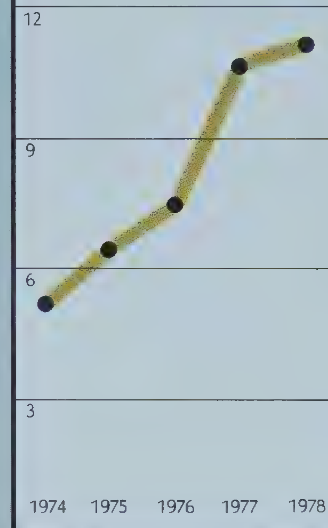
EARNINGS PER SHARE
Before extraordinary items
$



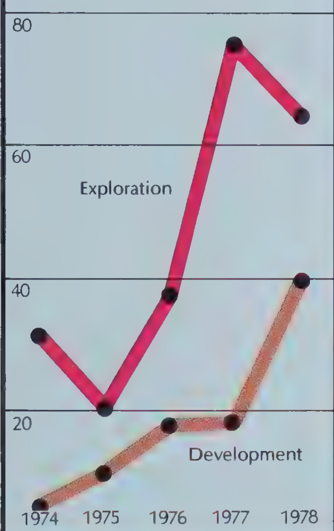
CASH FLOW
$ millions



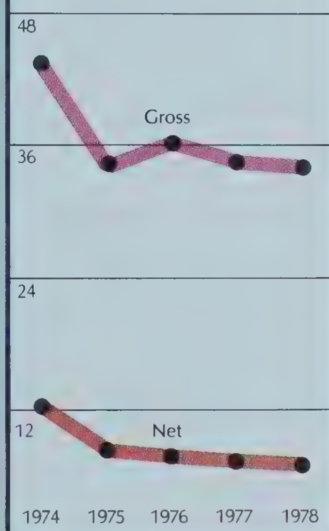
CASH FLOW PER SHARE
$



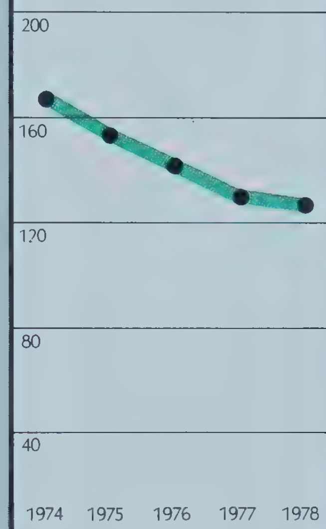
EXPLORATION AND DEVELOPMENT EXPENDITURES
$ millions



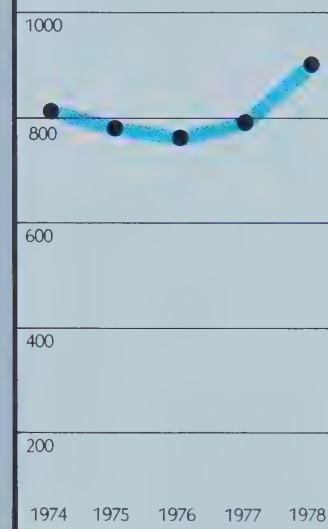
GROSS AND NET ACREAGE
Millions of acres



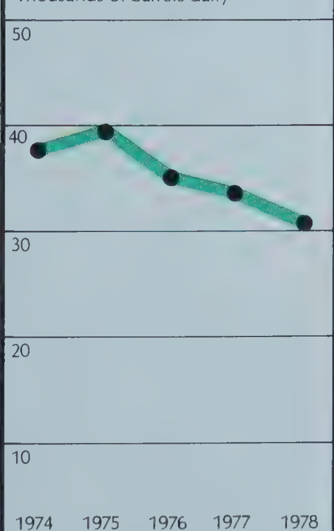
CRUDE OIL AND NATURAL GAS LIQUID RESERVES
Thousands of barrels



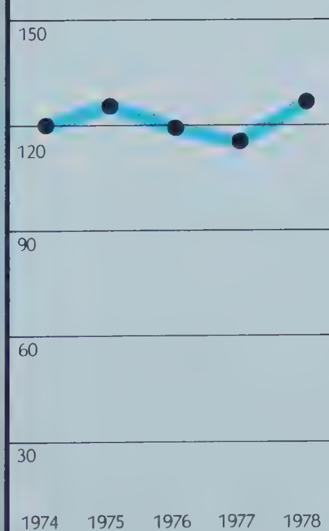
NATURAL GAS RESERVES
BCF



CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCED
Thousands of barrels daily



NATURAL GAS SALES
MMCF per day



company $17.5 million in cash and undertake $24.5 million of work over a number of years to earn an 83.75% interest in the lease from Home and another company. After Gulf has earned its interest, Home can retain a 10% interest in the lease.

In connection with the Home/Cygnus amalgamation, McDaniel Consultants (1965) Ltd., Sproule Associates Limited and other consultants reported on the companys' reserves of crude oil and natural gas liquids, natural gas, and sulphur, as of September 1, 1979. In Canada, gross proven reserves of crude oil and natural gas liquids were 118,680,000 barrels, and gross proven remaining reserves of natural gas were 798,440,000 Mcf. Gross reserves are Home's share of the gross reserves underlying the properties in which the company has either a working interest or royalty interest before deduction of minority and any royalty interests owned by others. The consultants did not compute gross proven remaining reserves on company properties in the United States. Home estimates that as of January 1, 1979, gross proven remaining reserves in the United States were 455,400 barrels of crude oil and liquids, and 30,177,000 Mcf of gas. The company's gross sulphur reserves as of September 1, 1979, were 1,020,000 long tons.

Other activities

Pipelines

Home owns and operates through its Cremona Pipe Line Division approximately 256 kilometres of crude oil pipeline, and 240 kilometres of condensate pipelines, all in Alberta. These pipelines transport crude oil, condensate and butanes, produced principally by others, from fields and gas processing plants to refineries and to transmission lines operated by third parties. Total throughput averaged approximately 35,574 barrels per day during the first nine months of 1979, compared with 35,969 barrels per day during the same period in 1978.

Home has a 50% interest in Federated Pipelines Ltd. which owns 506 kilometres of crude oil gathering line facilities and 560 kilometres of main transmission lines extending from the Swan Hills area to Edmonton. The line averaged 232,439 barrels per day during the first nine months, an increase of 5,079 barrels per day from 1978.

LPG marketing and storage

Home is engaged in the wholesale marketing, transportation and storage of LPG products in Canada and the United States for its own account and on behalf of others. Home owns or leases from others more than 400 railway LPG tank cars and operates underground storage facilities at Conway, Kansas and Hardisty, Alberta. The Conway facility, which is wholly-owned has a present capacity of approximately 10,000,000 barrels of underground storage. The Hardisty facility, which is 50% owned, consists of approximately 3,000,000 barrels of underground storage as well as 6,600 barrel per day butane fractionation plant.

In the nine months ended September 30, 1979, LPG marketing revenues increased 61%, reflecting a strong demand and higher prices for propane and butane.

Home estimates that capital expenditures for the year ending December 31, 1979 will amount to $185 million. Exploration expenditures will account for $103 million and development expenditures for $74 million. At Bragg Creek drilling activity continues into the night.

Mining

As the result of increased metal prices, and higher production rates resulting from underground development work, the company's silver/gold mine in Nevada is producing a positive cash flow. Additional underground work is being undertaken to improve production further.

Home has interests in metallurgical coal properties in the Elk River area of southeastern British Columbia, and in the Blairmore and other areas of Alberta. Development of the large Elk River property, in which the company has a 25% working interest, plus a royalty interest, is dependent upon an improvement in export markets for coking coal.

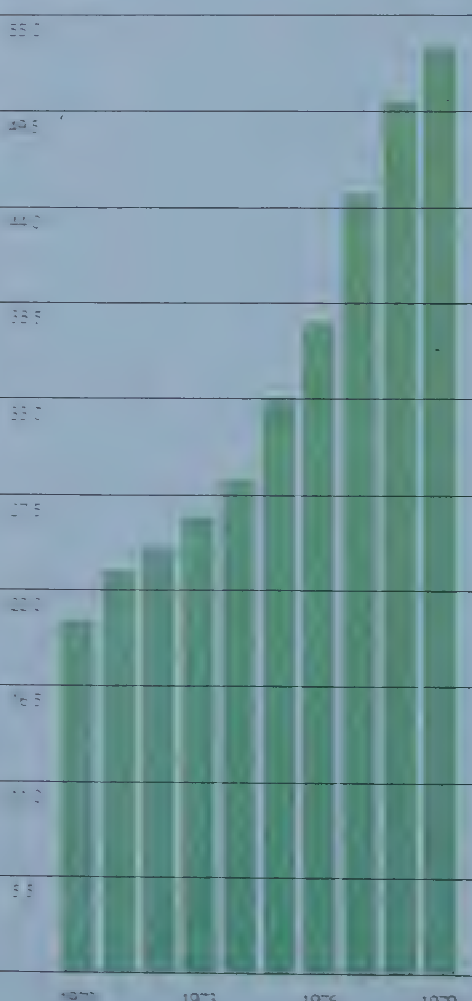
Home conducts an on-going mineral exploration program, principally for coal and uranium. About $1 million will be spent in 1980 on geophysical surveys and diamond drilling of various uranium properties.

Financial folio

Financial review

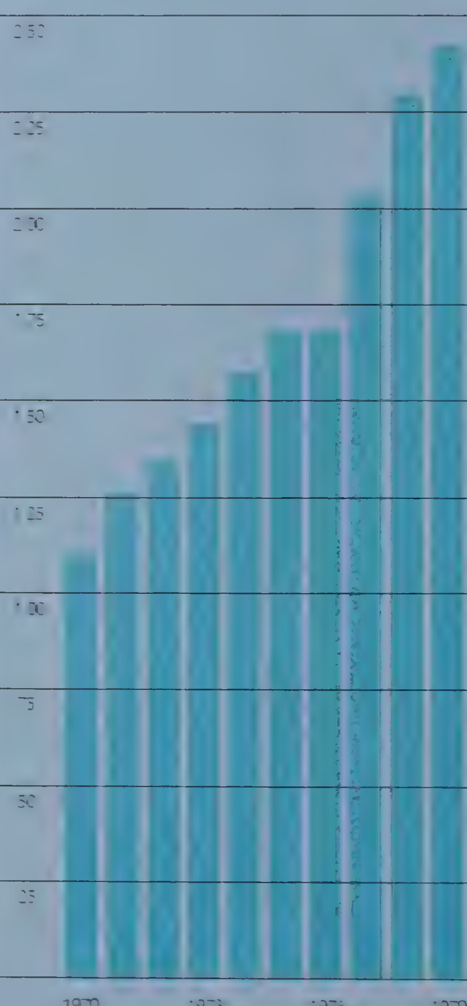
Income before extraordinary items

$ MILLIONS



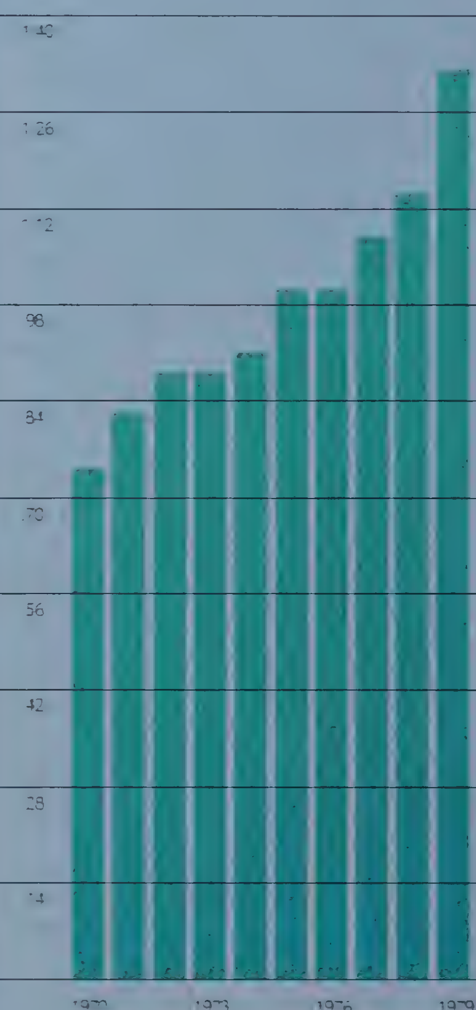
Earnings per share before extraordinary items

$



Dividends declared per share

$



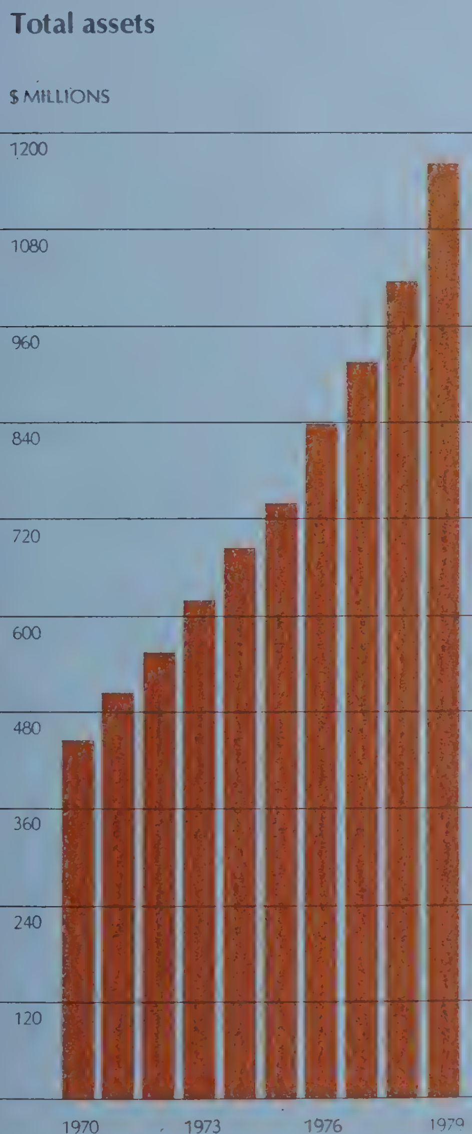
Income before extraordinary items amounted to $53,063,000 in 1979, an increase of $3,007,000 or 6% over 1978. The corresponding earnings per share increased from $2.29 in 1978 to $2.42 this year.

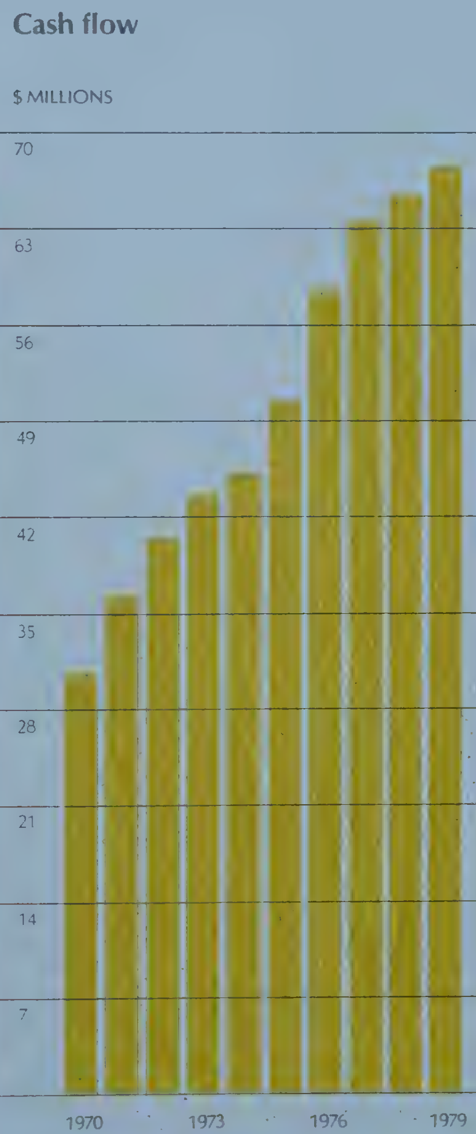
An extraordinary gain in 1979 increased Consumers' net income to $53,790,000 or $2.46 per common share. The gain amounted to $727,000 and represents Consumers' share of extraordinary items of Home.

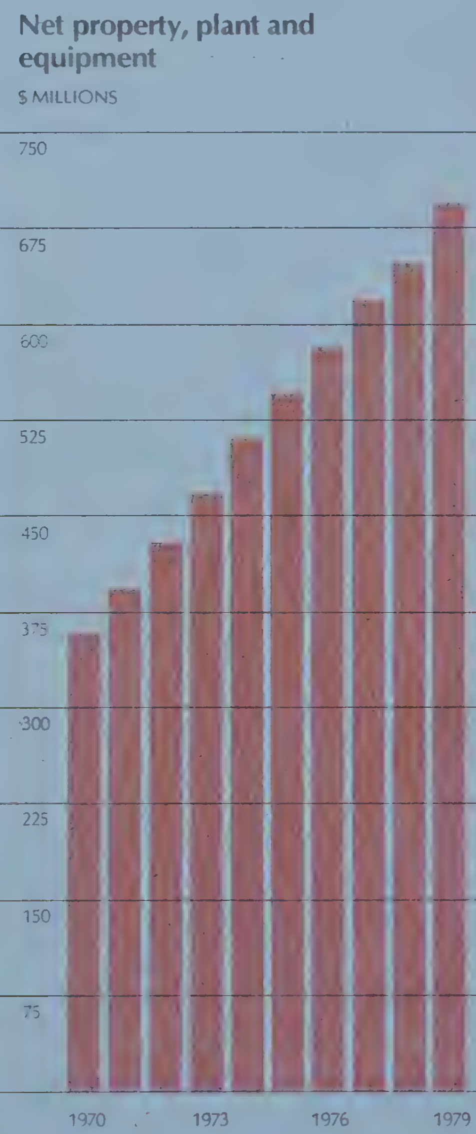
While Consumers' utility operations benefited from colder than normal weather and an increase in the number of active customers, the escalating cost of providing utility service, a reduction in the volumes of gas sold and the high level of interest rates have resulted in a less satisfactory contribution to earnings than in the past. However, the Ontario Energy Board has approved increased rates, effective October 1, 1979, designed to produce $15.6 million annually in incremental revenues to offset the increased costs of doing business.

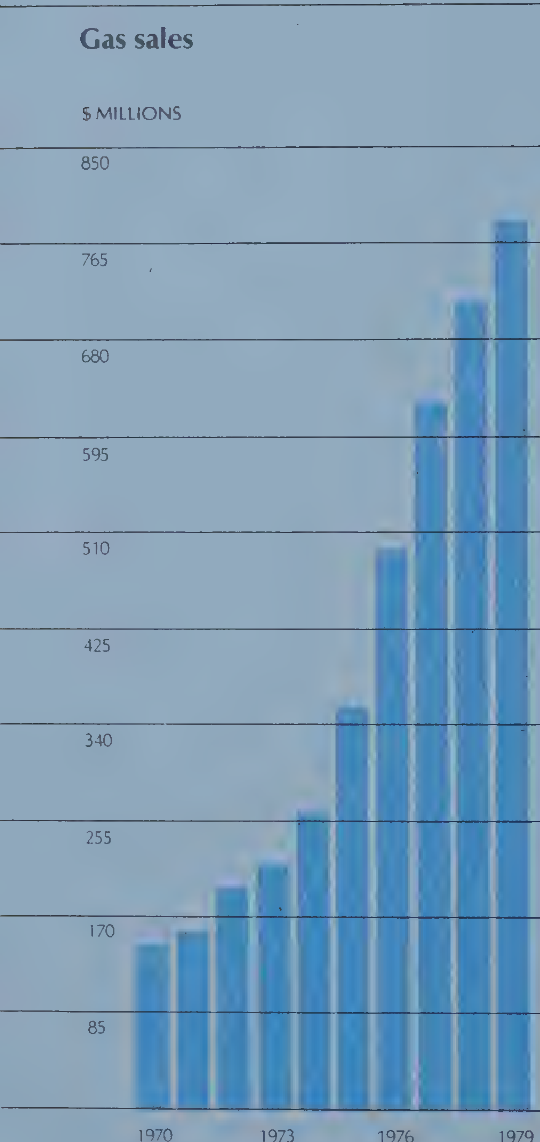
Gas sales revenue increased by $71 million to $786 million or 10.2% over last year. Gas costs increased by $64 million to $622 million. These increases result primarily from increases in the Toronto City Gate price of natural gas.

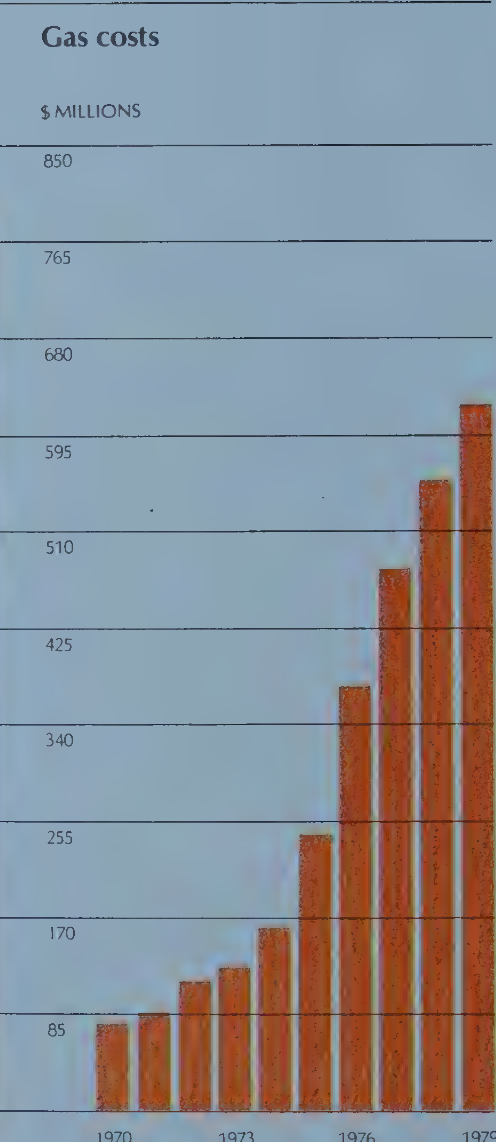
One of the more significant contributors to earnings growth in 1979 has been an increase in Consumers' equity in the earnings of Home which increased by 57% to $19.3 million from $12.3 million in 1978. This improvement results from earnings gains reported by Home in the period and Consumers' purchase of an











additional 1,098,772 Class A non-voting shares of Home, which raised the Company's interest therein from 35.1% at September 30, 1978 to 48.2% at September 30, 1979. Home's earnings have increased largely as a result of higher prices and volumes in its liquified petroleum gas marketing and storage operations. Mining and oil and gas revenues were also higher primarily as a result of price increases.

Home recently announced its results for the nine month period ended September 30, 1979 and reported net earnings before extraordinary items of $35,413,000 compared with $26,002,000 in the same period in 1978. The related earnings per share increased from $3.16 in 1978 to $4.29 in 1979. An income tax reduction realized on the application of a loss carry forward (net of minority interest) of $1,215,000 increased net earnings to $36,628,000. Gross revenues increased by 28% to $188,526,000 while Home's net flow of funds from operations increased to $84,117,000 or $10.20 per share compared with $66,600,000 or $8.10 per share in 1978.

During the fiscal year Fingas Investments Limited, a wholly-owned subsidiary of Consumers', placed a $40 million preference share issue with the Bank of Montreal. The dividend rate on these preference shares is equivalent to one-half of the published prime lending rate plus 1%. An additional $80 million was raised by Consumers' in May 1979 through a public financing in the form of a 10.45% Sinking Fund Debenture issue maturing

in 1999. The proceeds of these issues were used to reduce short term indebtedness incurred to fund capital expenditures, increases in the cost of gas held in storage, accounts receivable and other assets.

The amalgamation of Home and Cygnus on December 21, 1979, which resulted in the amalgamated company becoming a wholly-owned subsidiary of Consumers', will produce a significant change in the format of the Company's financial statements in the 1980 fiscal year. To date, the Company has reflected its investment in Home in accordance with the equity method of accounting. Future published financial statements will consolidate Home's results with those of Consumers'; however, the Company will continue to provide detailed segmented financial information for its utility and oil and gas interests.

The integration of the financial resources of Consumers', Home and Cygnus will provide the optimum financial strength for the group, particularly in its ability to borrow. The Company will refinance short term obligations incurred as a result of the amalgamation and those to be incurred in the normal course of business through the issue of one or more of its long term debt instruments, preference shares and common shares. While there are no definite plans for the form of financings or their timing, the flexibility in the new structure should enable the group to obtain the most favourable terms available.

Inflation and conventional financial reporting

The Company is presenting below a "Statement of Effects of Inflation on Funds Available for Distribution to Shareholders or for Expansion". This statement has been recommended by the Ontario Government's Committee on Inflation Accounting as an interim method of disclosing the effects of inflation on business enterprises until a more comprehensive and generally accepted method of disclosure is advanced in Canada. While this statement may be useful in illustrating the impact of inflation on certain aspects of the Company's conventional financial statements, it may also, in many respects, be misleading when applied to a utility such as Consumers' where rates are regulated by the Ontario Energy Board based on the historical cost of assets.

Statement of effects of inflation on funds available for distribution to shareholders or for expansion

(Expressed to the nearest million dollars)	Years ended September 30 1979	1978
	(unaudited)	
Funds generated from operations	$67	$65
Funds required to finance the original cost of productive assets	24	22
	43	43
Funds required to finance the increased cost of maintaining productive capacity		
Inventories	6	13
Property, plant and equipment	18	15
	24	28
Less additional funds which may be available from borrowings	12	16
	12	12
Funds available for distribution or expansion	$31	$31

Note:

The increased cost of replacing inventories represents the differences between the historical cost and current cost of goods sold at the date of sale.

The increased cost of maintaining the operating capacity of productive assets represents the difference between depreciation determined on a historical cost basis and depreciation indexed for inflation, using the Gross National Expenditure Implicit Price Index.

The extent to which additional funds may be available from borrowings is based on the ratio of equity to non-equity capital at the beginning of the year on the assumption that this ratio is maintained.

Consolidated Balance Sheet (Expressed in thousands)	September 30 1979	1978
ASSETS		
Current assets		
Cash and deposits	$ 7,150	$ 4,668
Accounts receivable	57,746	65,206
Materials and supplies	9,706	8,175
Gas stored underground	169,058	138,144
Prepaid expenses	3,094	3,561
	246,754	219,754
Investments		
Home Oil Company Limited (note 2)	192,744	118,381
Tecumseh Gas Storage Limited and other companies	9,020	8,775
Sogepet Limited	954	954
	202,718	128,110
Property, plant and equipment (note 3)	857,141	792,018
Accumulated depreciation and depletion	163,113	143,518
	694,028	648,500
Other assets and deferred charges		
Mortgages and non-current receivables	8,741	8,112
Property held for resale and other assets	1,374	1,792
Deferred gas costs (note 4)	4,402	5,077
Unamortized debt costs	4,954	3,978
Other deferred charges	3,577	4,207
	23,048	23,166
	$1,166,548	$1,019,530

Approved by the Board:

A.R. Poyntz, Director

W.P. Wilder, Director

(Expressed in thousands)	September 30 1979	1978
LIABILITIES		
Current liabilities		
Bank borrowings	$ 15,129	$ 8,459
Notes payable	87,950	81,500
Accounts payable and accrued	85,282	77,443
Accrued interest on long term debt	13,175	9,986
Taxes payable	5,817	11,323
Dividends payable	7,521	6,599
Funded debt payable within one year	9,456	3,198
	224,330	198,508
Long term debt (note 5)		
Funded debt	480,313	420,681
Other	124	2,991
	480,437	423,672
Deferred income taxes	27,931	24,361
Minority interest in subsidiary company	1,827	1,612
Preference shares of subsidiary company (note 6)	88,000	50,000
Shareholders' equity		
Capital stock		
Preference shares (note 7)	31,227	36,863
Common shares (note 8)		
Authorized—75,000,000 shares without par value		
Issued —21,003,393 shares (September 30, 1978 – 20,669,084 shares)	129,981	125,491
	161,208	162,354
Contributed surplus (note 9)	4,202	3,874
Appraisal adjustment	12,889	13,189
Retained earnings	165,724	141,960
	344,023	321,377
	$1,166,548	$1,019,530

Consolidated Statement of Income (Expressed in thousands)	Years ended September 30 1979	1978
Revenue		
Gas sales	**$786,498**	$715,242
Other	**33,864**	28,046
	820,362	743,288
Costs and expenses		
Gas costs	**622,439**	558,506
Operation and maintenance	**62,062**	58,859
Depreciation and depletion	**24,333**	22,481
Municipal and other taxes	**9,717**	8,488
Interest on long term debt	**40,772**	39,507
Other interest and finance costs	**12,758**	5,234
	772,081	693,075
	48,281	50,213
Equity in earnings before extraordinary items		
Home Oil Company Limited	**19,266**	12,281
Tecumseh Gas Storage Limited and other companies	**939**	1,199
Income before income taxes and extraordinary items	**68,486**	63,693
Income taxes		
Current	**12,010**	11,617
Deferred	**3,413**	2,020
	15,423	13,637
Income before extraordinary items	**53,063**	50,056
Extraordinary items (note 10)	**727**	3,569
Net income	**$ 53,790**	$ 53,625
Basic earnings per common share (note 11)		
Income before extraordinary items	**$ 2.42**	$ 2.29
Net income	**$ 2.46**	$ 2.46
Fully diluted earnings per common share (note 11)		

Consolidated Statement of Retained Earnings (Expressed in thousands)	Years ended September 30 1979	1978
Balance at beginning of year	**$141,960**	$114,717
Net income	**53,790**	53,625
Appraisal adjustment transfer	**300**	300
	196,050	168,642
Deduct		
Dividends		
Preference shares	**2,496**	2,834
Common shares	**27,620**	23,552
Share issue expense	**210**	296
	30,326	26,682
Balance at end of year	**$165,724**	$141,960

Consolidated Statement of Changes in Financial Position (Expressed in thousands)

	Years ended September 30 1979	1978
Working capital was provided from		
Operations		
Income before extraordinary items	**$ 53,063**	$ 50,056
Charges (credits) not affecting working capital		
Depreciation and depletion	**24,333**	22,481
Deferred income taxes	**3,413**	2,020
Excess of equity in earnings over dividends	**(14,841)**	(10,878)
Amortization of deferred charges and other items	**1,486**	1,725
	67,454	65,404
Issue of long term debt	**80,000**	—
Issue of preference and common shares for cash	**40,172**	50,205
Sale of Western Canada resource properties, net	**—**	13,119
Sale and redemption of investments	**—**	2,001
	187,626	130,729
Working capital was used for		
Additions to property, plant and equipment	**71,506**	70,509
Investment in shares of Home Oil Company Limited	**58,790**	34,438
Redemption of preference shares of subsidiary company	**2,000**	—
Increase (reduction) in mortgages and non-current receivables and other assets, net	**211**	(8,653)
Reduction in non-current portion of long term debt	**23,235**	9,326
Dividends on preference and common shares	**30,116**	26,386
Other items	**590**	240
	186,448	132,246
Increase (decrease) in working capital	**$ 1,178**	$ (1,517)
Changes in components of working capital		
Increase (decrease) in current assets		
Cash and deposits	**$ 2,482**	$ (821)
Accounts receivable	**(7,460)**	(6,479)
Materials and supplies	**1,531**	2,089
Gas stored underground	**30,914**	42,028
Prepaid expenses	**(467)**	1,105
	27,000	37,922
Increase (decrease) in current liabilities		
Bank borrowings	**6,670**	(5,054)
Notes payable	**6,450**	30,178
Accounts payable and accrued	**7,839**	13,959
Accrued interest on long term debt	**3,189**	2,711
Taxes payable	**(5,506)**	7,141
Dividends payable	**922**	310
Funded debt payable within one year	**6,258**	(9,806)
	25,822	39,439
Increase (decrease) in working capital	**$ 1,178**	$ (1,517)

1. Summary of significant accounting policies
The companies are primarily engaged in the distribution of natural gas to residential, commercial, industrial and other customers in areas of central and eastern Ontario, in and around Hull, Quebec and part of northern New York State. The companies are subject to the jurisdiction of certain regulatory bodies on a number of matters such as rates to be charged for the sale of gas, construction, operations and accounting practices.

Principles of consolidation. The consolidated financial statements include the accounts of all subsidiary companies since dates of acquisition. The major wholly-owned subsidiary companies are Atlas Oil and Gas Limited, Consumers' Realty Limited, Fingas Investments Limited, Niagara Gas Transmission Limited, St. Lawrence Gas Company, Inc., Shorgas Limited, Société Gazifère de Hull, Inc., and Underwater Gas Developers Limited. Cygnus Corporation Limited is 96% owned by the Company.

The equity method of accounting is used for investments in Home Oil Company Limited (note 2) and Tecumseh Gas Storage Limited and other companies 50% owned.

Dividends on investments which are accounted for using the equity method of accounting were $5,171,000 in 1979 and $2,524,000 in 1978.

The difference between the cost of investments in shares of companies and the net book value of such shares is attributed to the fair value of the related assets with any excess being accounted for as goodwill. At September 30, 1979, an unamortized difference of $21,712,000 ($6,566,000 at September 30, 1978) between the cost of the shares of Home Oil Company Limited and the net book value of such shares has been attributed to proven reserves and is being charged against the equity in earnings of Home over the life of such reserves.

Materials and supplies. Materials and supplies consisting primarily of merchandise for resale and pipe and general stock for construction and maintenance are valued at the lower of cost and replacement cost. Amounts are removed from inventory at estimated average cost per unit.

Gas stored underground. Inventory of gas held in underground storage is valued at the lower of cost determined on the first-in first-out basis and net realizable value.

Property, plant and equipment. Property, plant and equipment is stated at cost except for gas utility plant and equipment acquired by the company prior to 1956 which, at September 30, 1979, is stated at a 1955 appraised value of $41,180,000 ($41,804,000 at September 30, 1978). The appraisal increment is shown in shareholders' equity as appraisal adjustment and is being transferred to retained earnings over the remaining service life of such assets.

Depreciation is calculated on the straight-line service life basis using the recorded values of depreciable properties. Rates used for the major components of utility plant are:

Distribution systems mains	1.6%
Customer service lines	3.3%
Measuring and regulating equipment	6.1%
Meters	2.2%
Rental equipment on customers' premises	5.6%

These rates, together with appropriate rates used for other items of plant, are equivalent to a composite rate on all depreciable assets of approximately 3%.

Property, plant and equipment includes all costs related to construction. The cost of funds used for the purpose of construction and included in property, plant and equipment was $630,000 in 1979 and $236,000 in 1978. Overhead costs capitalized were $5,171,000 in 1979 and $4,619,000 in 1978.

Maintenance, repairs and minor renewals are charged to maintenance expense accounts. However, improvements that increase the service capacity or prolong the service life beyond that contemplated in the established depreciation rates are capitalized. The original cost of property retired is removed from plant accounts and charged to accumulated depreciation, which is credited with the salvage proceeds less removal cost. Under this method, no profit or loss is recognized as to ordinary retirements of depreciable property.

The full cost method of accounting is followed for gas and oil exploration and development operations whereby all costs of exploring for and developing gas and oil reserves are capitalized as part of property, plant and equipment. Such costs include the cost of drilling both productive and non-productive wells and overhead expenses related to exploration and development activities. These costs are depleted using the unit of production method based upon an estimate of proven recoverable reserves.

Property held for resale and other assets. Property held for resale and other assets are valued at the lower of cost and net realizable value.

Financing costs. The costs incurred on issuing long term debt are deferred and charged against income over the life of each issue while the costs of issuing shares are charged to retained earnings in the year incurred. Gains realized on purchases for redemption are applied against the unamortized debt costs related to each issue. When the deferred costs related to each issue are eliminated gains are included in income. Amounts so included were $1,024,000 in 1979 and $406,000 in 1978.

Translation of foreign currencies. The company translates cash, receivables, payables and assets and liabilities carried at current prices at current rates of exchange. All other assets and liabilities are translated at applicable historical rates. Revenues and expenses are translated at rates prevailing at the time of the transactions with the exception of depreciation, depletion and amortization which reflect historical rates used for the related assets. Foreign currency gains and losses are included in the determination of net income in the

current period except for unrealized gains and losses related to monetary assets and liabilities with a fixed or ascertainable life extending beyond the end of the following fiscal year. At September 30, 1979 unrealized foreign currency losses of $2,982,000 ($3,980,000 at September 30, 1978) were deferred and will be charged to income over the remaining life of the related assets and liabilities.

Revenue recognition. The company follows an accepted practice in the gas utility industry whereby it records monthly gas sales on the basis of meter readings or estimates made throughout the month. As a result, although each fiscal year includes twelve months gas sales and costs, there is at the end of each fiscal year gas delivered, the cost of which was charged to expense, while the related revenue is not recorded until the following year when billed.

Income taxes. Income taxes are recorded on a tax allocation basis except in regulated gas utility operations when rate and revenue structures are designed and approved not to recover deferred taxes in current revenues. Such deferred taxes not recovered in revenues and therefore not recorded amounted to $9,200,000 in 1979 and $6,400,000 in 1978 and to an accumulated amount of $122,300,000 at September 30, 1979.

2. Investment in Home Oil Company Limited

The investment in Home Oil Company Limited is comprised of the following:

	1979	1978
	(expressed in thousands)	
Shares	$189,144	$114,781
Class A share purchase warrants at cost	3,600	3,600
	$192,744	$118,381

The companies own 2,750,387 Class A shares (1,651,615 at September 30, 1978) and 1,276,788 Class B voting shares of Home. Through these holdings, the company controls 49.6% of Home's voting shares and participates in approximately 48.2% (35.1% at September 30, 1978) of Home's equity and earnings. The Class A share warrants are exercisable on or before April 30, 1980 as follows: 76,975 shares at $14.55 U.S. per share and 32,990 shares at $17.66 U.S. per share. For transactions subsequent to September 30, 1979 see note 14(b).

3. Property, plant and equipment

The following is a summary of property, plant and equipment and the related accumulated depreciation and depletion:

	1979		1978	
	Asset	Accumulated depreciation and depletion	Asset	Accumulated depreciation and depletion
	(expressed in thousands)			
Gas utility plant including distribution, transmission and underground storage facilities, land, structures, pipelines, permissions, equipment, etc.	$782,052	$148,358	$728,754	$132,010
Natural resource properties including wells, gathering lines and exploration and development costs	63,302	8,035	52,030	6,064
Drilling and related equipment	8,602	5,597	8,133	4,761
Other	3,185	1,123	3,101	683
	$857,141	$163,113	$792,018	$143,518

4. Deferred gas costs

During 1972 and 1973, TransCanada PipeLines Limited was paid an additional $7,263,000 on certain volumes of gas delivered in that period to enable it to finance the construction of additional pipeline facilities necessary to deliver the gas volumes required by the company. In accordance with Accounting Orders made by the Ontario Energy Board, this amount was deferred in the accounts and is being amortized over a period of ten years to September 30, 1984.

5. Long term debt

	Maturity	1979	1978
Funded debt		(expressed in thousands)	
The Consumers' Gas Company			
First mortgage sinking fund bonds			
5½% Series C	1983	$ 11,367	$ 12,598
4.85% Series D (U.S. $9,905,000; U.S. $10,800,000 in 1978)	1985	11,492	12,797
8⅝% Series E	1993	56,046	57,241
8% Series F (U.S. $14,279,000; U.S. $14,538,000 in 1978)	1993	16,568	17,225
8¾% Series G	1994	18,990	19,415
9⅛% Series H	1995	29,100	29,600
11⅜% Series I	1994	14,610	14,815
11½% Series J	1996	20,250	20,250
10⅞% Series K	1996	49,770	50,000
Sinking fund debentures			
7%	1979	4,000	4,000
6½%	1981	5,600	6,513
6%	1982	4,905	5,469
6¼%	1984	5,761	6,635
6⅛%	1985	12,696	13,631
8⅝%	1991	41,548	44,119
8½%	1992	28,410	29,263
9.60%	1997	70,000	70,000
10.45%	1999	80,000	—
Convertible sinking fund debentures			
6% (conversion privileges expired February 1, 1979)	1983	6,261	7,777
St. Lawrence Gas Company, Inc.			
First mortgage sinking fund bonds			
5¼% (U.S. $2,064,000; U.S. $2,136,000 in 1978)	1988	2,395	2,531
		489,769	423,879
Less payable within one year included in current liabilities		9,456	3,198
		$480,313	$420,681

The First Mortgage Sinking Fund Bonds rank pari passu and are secured by a first fixed and specific mortgage, pledge and charge on specified assets and a first floating charge on the other assets of the company. The Sinking Fund Debentures and Convertible Sinking Fund Debentures rank pari passu and are unsecured.

The aggregate principal of funded debt maturities and sinking fund requirements amount to approximately $17,260,000 in 1981, $19,177,000 in 1982, $22,731,000 in 1983 and $17,539,000 in 1984.

Other

	1979	1978
	(expressed in thousands)	
Term bank loans of subsidiary company	—	$1,800
Mortgages payable and sundry indebtedness maturing at various dates up to 1995	$124	1,191
	$124	$2,991

6. Preference shares of subsidiary company

Dividends are payable on $48,000,000 of First Preference Shares at an annual rate of one-half of the published prime lending rate plus 1¼% and on $40,000,000 of Second Preference Shares at an annual rate of one-half of the published prime lending rate plus 1%. Annual redemption requirements are $2,000,000 to 1982, $6,000,000 to 1985 and $8,000,000 to 1988 for the First Preference Shares and $1,600,000 to 1982, $4,800,000 to 1985 and $6,400,000 to 1988 for the Second Preference Shares. Under certain circumstances The Consumers' Gas Company may be required to purchase these shares.

7. Preference shares

Authorized

Group 1 — 127,823 shares of $100 each, issuable in series

Group 2 — 5,889,600 shares of $25 each, issuable in series

Group 3 — 7,922,225 shares of $20 each, issuable in series

	1979		1978	
Outstanding	Shares	Amount	Shares	Amount
	(dollars expressed in thousands)			
Group 1				
5½% cumulative Series A, redeemable at a premium of 1%	38,411	$ 3,841	40,171	$ 4,017
5½% cumulative Series B, redeemable at a premium of 1%	68,037	6,804	80,612	8,061
5% cumulative Series C, redeemable at a premium reducing from 2% to 1%	21,375	2,138	21,375	2,138
Group 2				
9¼% cumulative, First Series, convertible into common shares at $12.50 per share, redeemable at par	—	—	106,400	2,660
Group 3				
9% cumulative, First Series, convertible into common shares at $15.00 per share, redeemable at varying premiums reducing from $1.40	922,225	18,444	999,350	19,987
		$31,227		$36,863

Retirement funds for the purchase of preference shares, Group 1 are required to be maintained in the amounts of $100,000 for the Series A shares, $200,000 for the Series B shares, and $60,000 for the Series C shares. These funds are required to be augmented on January 2 of each year by the amounts necessary to re-establish them at the original amounts to the extent that this obligation has not been satisfied by purchase of preference shares for cancellation in prior years. At September 30, 1979 no balance remained in the retirement funds as they had been fully used to purchase preference shares for cancellation.

A retirement fund for the purchase of preference shares, Group 3, First Series will begin operating in 1980.

8. Common shares

During the year 13,407 shares were issued for cash under the Restricted Stock Option Plan and 320,902 shares were issued for other than cash, of which 5,283 were issued in exchange for $115,000 principal amount of the Convertible Sinking Fund Debentures and 315,619 were issued on conversion of $4,202,500 par value of preference shares.

Under the terms of the Restricted Stock Option Plan approved by the common shareholders on November 19, 1956, 890,874 common shares have been set aside for purchase by key employees. At September 30, 1979, 831,399 shares (September 30, 1978, 817,992 shares) had been issued under this plan and options are outstanding on 38,350 shares at $12.00 per share. The last of these options expires on July 5, 1982. A total of 92 employees hold options under the Restricted Stock Option Plan.

9. Contributed Surplus

	1979	1978
	(expressed in thousands)	
Balance at beginning of year	$3,874	$3,745
Surplus realized on purchase of preference shares for cancellation	328	129
Balance at end of year	$4,202	$3,874

10. Extraordinary items

	1979	1978
	(expressed in thousands)	
Share of extraordinary gains of Home Oil Company Limited	$727	$ 448
Gain on disposition of Western Canada resource property area of interest net of income taxes of $109,000	—	3,121
	$727	$3,569

11. Earnings per share

Earnings per share have been calculated on the weighted average number of common shares outstanding during the year, being 20,880,203 for 1979 and 20,658,821 for 1978.

Fully diluted earnings per common share assumes the conversion of the convertible debentures, the convertible preference shares and the exercise of the stock options from the dates of issue. For 1979 fully diluted earnings per common share are:

Income before extraordinary items	$2.35
Net income	$2.38

12. Remuneration of directors and senior officers

In 1979 the companies paid $1,123,000 to directors and senior officers of the company (1978 $1,004,000).

13. Retirement plans

The company and certain subsidiaries have contributory retirement plans to cover substantially all employees. Normal retirement benefits under these plans commence at age 65. Based on actuarial advice an unfunded past service obligation of approximately $7,800,000 at January 1, 1979 is being funded over 15 years and charged to operations in annual amounts of $874,000 to 1989 and thereafter, $364,000 to 1993. Amounts estimated in the actuarial calculations to be sufficient to fund all current costs of the plans are charged to operations in the year incurred.

14. Commitments, contingencies and subsequent events

(a) The company has undertaken to make sufficient use of the facilities of Tecumseh Gas Storage Limited to generate the revenue required by Tecumseh to meet its obligations under Trust Indentures relating to its debentures. In the event that there is any deficiency, the company will be required to purchase subordinated securities in an amount to make up the deficiency. The management of the company is of the opinion that Tecumseh will generate sufficient revenues to meet its obligations.

(b) On December 20, 1979 the shareholders approved amendments to the Company's Articles of Incorporation creating:

20,000,000 Preference Shares, Group 4, par value $25.00, issuable in series,

20,000,000 Preference Shares, Group 5, par value $25.00, issuable in series,

2,000,000,000 Preference Shares, Group 6, par value $0.02, issuable in series.

The first series of each of the Group 5 and Group 6 Preference Shares will be issued as part of the consideration for the acquisition of Home Oil Company Limited and Cygnus Corporation Limited shares under the amalgamation transaction discussed below.

On December 20 and 21, 1979, the shareholders of Cygnus and Home voted approval of an amalgamation of those two companies and ratified a transaction whereby the amalgamated company became a wholly-owned subsidiary of Consumers'. Under the terms of the amalgamation transaction Consumers' will issue approximately 13.9 million 7½% Preference Shares, Group 5, First Series, par value $25.00, convertible into common shares at $28.00 per share as consideration for approximately 3.6 million Class A and Class B shares of Home and approximately 50,000 Class A and Class B shares of Cygnus and will pay approximately $58 million in cash to the remaining Home and Cygnus shareholders.

Consumers' has also agreed to acquire, when issued, under the same terms and conditions as if they had been outstanding at the date of the amalgamation transaction an additional 147,294 Class A shares of Home. These shares are issuable at prices ranging from $20.00 to $57.25 per share under employee stock options which are exercisable at various dates up to 1989.

Consumers' has negotiated increases in its bank lines of credit as a temporary measure to enable it to fulfill the cash requirements of the acquisition.

Auditors' Report

To the Shareholders of The Consumers' Gas Company

We have examined the consolidated balance sheet of The Consumers' Gas Company as at September 30, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.

Chartered Accountants

Toronto, Canada December 21, 1979.

Financial statistics

Condensed Consolidated Balance Sheet ($000's)	1979	1978	1977
Assets			
Current assets (Note 1)	**$ 246,754**	$ 219,754	$181,832
Investments	**202,718**	128,110	84,182
Property, plant and equipment	**857,141**	792,018	746,922
Accumulated depreciation and depletion	**163,113**	143,518	127,453
	694,028	648,500	619,469
Other assets and deferred charges	**23,048**	23,166	30,969
	$1,166,548	$1,019,530	$916,452
Liabilities			
Current liabilities	**$ 224,330**	$ 198,508	$159,069
Long term debt	**480,437**	423,672	432,998
Deferred income taxes	**27,931**	24,361	28,253
Minority interest in subsidiary companies	**1,827**	1,612	1,479
Preference shares of subsidiary company	**88,000**	50,000	
Shareholders' equity			
Preference shares	**31,227**	36,863	37,422
Common shares	**129,981**	125,491	125,280
Contributed surplus	**4,202**	3,874	3,745
Appraisal adjustment	**12,889**	13,189	13,489
Retained earnings	**165,724**	141,960	114,717
	344,023	321,377	294,653
	$1,166,548	$1,019,530	$916,452

Note 1: For years prior to 1975 current assets include the long term portion of accounts receivable on the merchandise finance plan.

1976	1975	1974	1973	1972	1971	1970
$129,082	$ 97,164	$ 81,475	$ 63,132	$ 51,426	$ 52,943	$ 58,734
79,395	72,141	67,917	64,307	59,051	45,532	17,749
694,950	647,442	601,649	549,692	506,172	460,944	419,572
113,125	101,312	90,898	82,639	77,005	68,420	60,966
581,825	546,130	510,751	467,053	429,167	392,524	358,606
49,004	25,942	24,540	25,150	16,374	13,771	11,239
$839,306	$741,377	$684,683	$619,642	$556,018	$504,770	$446,328
$119,792	$111,027	$117,133	$ 71,476	$105,603	$ 76,926	$ 81,322
408,969	341,447	363,375	356,531	260,609	235,289	184,822
28,935	21,382	18,403	15,922	12,016	8,846	6,529
1,295	1,221	1,197	2,114	12,482	15,549	727
35,119	35,376	15,790	16,012	16,320	16,753	17,176
125,164	125,161	72,940	72,940	72,926	72,712	72,578
3,633	3,523	3,364	3,293	3,233	3,195	3,136
14,179	14,494	14,808	15,024	15,761	17,576	17,925
102,220	87,746	77,673	66,330	57,068	57,924	62,113
280,315	266,300	184,575	173,599	165,308	168,160	172,928
$839,306	$741,377	$684,683	$619,642	$556,018	$504,770	$446,328

Financial statistics

Consolidated Statement of Income ($000's)	1979	Years ended September 30 1978	1977
Gas Sales			
Residential	**$234,422**	$212,663	$180,373
Commercial	**260,264**	232,797	200,603
Industrial and other	**291,812**	269,782	245,700
Total gas sales	**786,498**	715,242	626,676
Other revenue	**33,864**	28,046	23,146
	820,362	743,288	649,822
Gas costs	**622,439**	558,506	479,646
Operation and maintenance	**62,062**	58,859	52,362
Depreciation and depletion	**24,333**	22,481	19,908
Municipal and other taxes	**9,717**	8,488	7,821
Interest and amortization—long term debt	**40,772**	39,507	35,620
Other interest	**12,758**	5,234	3,733
	772,081	693,075	599,090
	48,281	50,213	50,732
Equity in earnings before extraordinary items			
Home Oil Company Limited	**19,266**	12,281	8,195
Tecumseh Gas Storage Limited and other companies	**939**	1,199	1,628
Income before income taxes and extraordinary items	**68,486**	63,693	60,555
Income taxes			
Current	**12,010**	11,617	11,593
Deferred	**3,413**	2,020	4,258
	15,423	13,637	15,851
Income before extraordinary items	**53,063**	50,056	44,704
Extraordinary items	**727**	3,569	(7,379)
Net income for the year available for dividends and reinvestment in the business	**53,790**	53,625	37,325
Preference share dividends	**2,496**	2,834	2,832
Net income available for common share dividends and reinvestment in the business	**$ 51,294**	$ 50,791	$ 34,493
Basic earnings per common share			
Before extraordinary items	**$ 2.42**	$ 2.29	$ 2.03
After extraordinary items	**$ 2.46**	$ 2.46	$ 1.67
Fully diluted earnings per common share			
Before extraordinary items	**$ 2.35**	$ 2.19	$ 1.95
After extraordinary items	**$ 2.38**	$ 2.35	$ 1.63

1976	1975	1974	1973	1972	1971	1970
$137,549	$102,859	$ 84,061	$ 75,271	$ 70,122	$ 67,325	$ 65,177
153,935	107,191	77,333	62,603	55,178	46,406	40,041
206,557	146,634	101,004	79,766	72,113	44,549	39,599
498,041	356,684	262,398	217,640	197,413	158,280	144,817
24,725	23,393	20,358	17,330	15,036	13,011	11,573
522,766	380,077	282,756	234,970	212,449	171,291	156,390
375,242	244,605	163,565	127,425	115,596	85,413	77,294
45,904	44,063	39,385	34,553	31,513	27,023	24,107
18,191	17,440	15,954	14,745	13,049	11,237	10,114
6,583	5,740	4,770	4,271	4,261	4,177	3,865
31,109	27,585	26,608	22,985	15,878	12,922	10,389
3,217	3,524	3,187	1,995	2,865	2,254	2,116
480,246	342,957	253,469	205,974	183,162	143,026	127,885
42,520	37,120	29,287	28,996	29,287	28,265	28,505
5,614	4,580	3,335	2,382	915	116	—
1,286	1,623	1,194	1,051	876	832	635
49,420	43,323	33,816	32,429	31,078	29,213	29,140
4,585	7,298	2,627	2,419	3,556	3,904	7,841
7,554	2,979	2,918	3,906	3,170	2,317	1,140
12,139	10,277	5,545	6,325	6,726	6,221	8,981
37,281	33,046	28,271	26,104	24,352	22,992	20,159
147	(529)	(745)	1,621	—	—	(367)
37,428	32,517	27,526	27,725	24,352	22,992	19,792
2,626	2,496	862	875	901	919	940
$ 34,802	$ 30,021	$ 26,664	$ 26,850	$ 23,451	$ 22,073	$ 18,852
$ 1.68	$ 1.68	$ 1.57	$ 1.44	$ 1.34	$ 1.26	$ 1.10
$ 1.69	$ 1.65	$ 1.52	$ 1.53	$ 1.34	$ 1.26	$ 1.08
$ 1.64	$ 1.46	$ 1.45	$ 1.34	$ 1.25	$ 1.18	$ 1.04
$ 1.65	$ 1.43	$ 1.41	$ 1.42	$ 1.25	$ 1.18	$ 1.02

Consolidated Statement of Changes in Financial Position ($000's)	Years ended September 30 1979	1978	1977
Source of working capital			
Cash flow from operations	**$ 67,454**	$ 65,404	$ 63,830
Issue of long term debt	**80,000**	—	70,000
Issue of preference and common shares	**40,172**	50,205	2,772
Sale of investment in shares of other companies	**—**	2,001	9,357
Sale of Western Canada Resource Properties, net	**—**	13,119	—
Issue of common shares for convertible debentures	**—**	—	—
	187,626	130,729	145,959
Use of working capital			
Additions to property, plant and equipment	**71,506**	70,509	58,880
Investment in shares of subsidiary companies adjusted for working capital position at dates of acquisition	**—**	—	—
Investment in shares and warrants of Home Oil Company Limited	**58,790**	34,438	9,748
Investment in shares of other companies	**—**	—	—
Investment in Gas Arctic – Northwest Project Study Group	**—**	—	2,375
Deferral of increased cost of gas	**—**	—	—
Other reductions in non-current portion of long term debt excluding mortgages payable	**23,235**	9,326	48,660
Dividends on preference and common shares	**30,116**	26,386	25,130
Investment (reduction) in mortgages and non-current receivables and other assets, net	**211**	(8,653)	(14,017)
Redemption of subsidiary company preference shares	**2,000**	—	—
Other items	**590**	240	1,710
Exchange of convertible debentures for common shares	**—**	—	—
	186,448	132,246	132,486
Increase (decrease) in working capital position	**$ 1,178**	$ (1,517)	$ 13,473

1976	1975	1974	1973	1972	1971	1970
$ 58,565	$ 50,447	$ 45,053	$ 43,825	$ 40,613	$ 36,324	$ 30,602
80,000	41,900	30,000	104,728	32,000	50,000	—
—	20,000	—	14	212	134	160
2,063	—	3,552	—	—	—	—
—	—	—	—	—	—	—
—	52,221	—	—	—	—	—
140,628	164,568	78,605	148,567	72,825	86,458	30,762
53,578	53,937	61,385	54,621	51,176	43,569	33,051
—	43	344	15,405	4,184	20,558	338
3,441	—	3,600	—	21,070	—	—
—	5	898	1,128	101	80	—
1,989	1,288	828	1,572	—	—	—
—	—	—	3,703	3,560	—	—
11,036	10,232	23,610	9,947	6,616	5,073	4,856
23,269	20,789	16,796	16,284	16,307	15,263	13,873
21,240	(2,697)	(1,134)	(800)	(206)	482	370
—	—	—	—	—	—	—
2,921	1,278	(408)	874	211	2,828	(85)
—	52,221	—	—	—	—	—
117,474	137,096	105,919	102,734	103,019	87,853	52,403
$ 23,154	$ 27,472	$(27,314)	$ 45,833	$(30,194)	$ (1,395)	$(21,641)

Operating statistics

	1979	1978	1977
Gas supply and sendout – MMcf			
Natural gas purchased	**312,077**	316,739	321,494
Natural gas produced	**3,636**	3,588	2,011
Total gas supply	**315,713**	320,327	323,505
Gas into storage	**(71,106)**	(63,980)	(65,522)
Gas out of storage	**62,004**	55,327	61,772
Total gas sendout	**306,611**	311,674	319,755
Gas sales to customers – MMcf			
Residential	**73,519**	74,174	73,265
Commercial	**101,156**	101,431	101,407
Industrial and other	**128,921**	133,970	143,992
Total sales	**303,596**	309,575	318,664
Used by company	**369**	378	383
Unbilled and unaccounted for	**2,646**	1,721	708
	306,611	311,674	319,755
Maximum daily sendout – Mcf	**1,781,200**	1,755,800	1,673,000
Minimum daily sendout – Mcf	**256,500**	252,600	243,100
Average daily sendout – Mcf	**840,000**	853,000	876,000
Degree day deficiency (see note)	**4,246**	4,434	4,355
Number of active customers (year end)			
Residential	**530,636**	504,725	483,143
Commercial	**51,555**	48,139	45,951
Industrial and other	**5,987**	5,734	5,734
Total	**588,178**	558,598	534,828
Cost to customers			
Average revenue per Mcf			
Residential	**$3.18**	$2.86	$2.46
Commerical	**$2.57**	$2.30	$1.98
Industrial and other	**$2.26**	$2.01	$1.71
Average use per residential customer – Mcf	**137.8**	145.4	150.3
Number of employees – year end	**2,866**	2,775	2,696
Kilometres of mains in use – year end	**15,124**	14,845	14,537
Population of area served	**4,598,000**	4,528,000	4,443,000

Note: Degree day deficiency figures given, expressed in Celsius, are those for the Toronto area. The deficiency is a measure of coldness during the heating season and is calculated by adding together the total number of degrees by which the daily mean temperature fell below 18°C on those days when it did so.

1976	1975	1974	1973	1972	1971	1970
308,376	310,143	303,571	277,030	229,907	174,966	177,342
1,622	3,332	3,002	3,006	2,651	1,676	1,581
309,998	313,475	306,573	280,036	232,558	176,642	178,923
(51,456)	(56,439)	(51,289)	(46,612)	(32,399)	(26,186)	(40,908)
51,055	56,462	36,984	30,704	42,281	30,979	25,457
309,597	313,498	292,268	264,128	242,440	181,435	163,472
65,935	63,932	62,538	59,249	55,320	53,465	51,568
93,835	90,536	82,814	73,794	65,969	54,651	46,782
147,007	156,842	144,534	128,188	118,757	70,548	63,110
306,777	311,310	289,886	261,231	240,046	178,664	161,460
424	539	468	507	453	385	374
2,396	1,649	1,914	2,390	1,941	2,386	1,638
309,597	313,498	292,268	264,128	242,440	181,435	163,472
1,589,700	1,450,800	1,435,700	1,257,600	1,148,300	977,900	855,300
320,300	306,100	272,600	286,300	236,600	158,000	134,400
846,000	859,000	801,000	724,000	662,000	497,100	447,900
4,026	3,987	4,137	4,057	4,196	4,230	4,099
462,195	443,247	427,181	406,596	391,270	375,275	363,365
43,214	42,295	39,465	35,384	32,985	30,755	28,428
5,768	5,700	5,585	5,415	5,295	5,176	4,876
511,177	491,242	472,231	447,395	429,550	411,206	396,669
$2.09	$1.61	$1.34	$1.27	$1.26	$1.26	$1.26
$1.64	$1.18	$ .93	$ .85	$ .84	$ .85	$ .86
$1.41	$ .93	$ .69	$ .62	$ .61	$ .63	$ .63
141.4	142.6	145.0	143.2	141.0	141.7	141.0
2,706	2,711	2,703	2,550	2,379	2,322	2,377
14,243	13,969	13,656	13,297	12,766	12,293	12,005
4,378,000	4,305,000	4,238,000	4,180,000	4,085,000	3,960,000	3,862,000

The Consumers' Gas Company

Directors

J. Douglas Gibson, O.B.E.*†
Chairman of the Board: The Consumers' Gas Company, Canadian Reinsurance and Canadian Reassurance Company

Director: Bell Canada, Harding Carpets Limited, Imperial Life Assurance Company, Moore Corporation Limited, National Trust Company, Limited, Northern Telecom Limited, Scurry-Rainbow Oil Limited, The Steel Company of Canada Limited

W.P. Wilder*
President and Chief Executive Officer: The Consumers' Gas Company

Director: The Canada Life Assurance Company, John Labatt Limited, Maclean-Hunter Limited, Noranda Mines Limited, Scurry-Rainbow Oil Limited, Simpsons-Sears Limited, United Corporations Limited

A.R. Poyntz*°
Director: The Imperial Life Assurance Company of Canada

N. Torno, M.B.E.*•
Director: The Canada Trust Company, Carling O'Keefe Limited

A.G.S. Griffin*°
Chairman of the Board: The Commercial Life Assurance Company of Canada, The Halifax Insurance Company

Deputy Chairman of the Board: Scurry-Rainbow Oil Limited

Director: Canadian Corporate Management Co. Ltd., C.I.L. Inc., ICI Americas Inc., Meridian Concepts Ltd., Raymond International Inc., United Dominions Corporation (Canada) Ltd., VGM Trustco Ltd., Victoria & Grey Metro Trust Co. Ltd., S.G. Warburg & Co. International Holdings Ltd.

R.S. Paddon, Q.C.
General Counsel: The Consumers' Gas Company

Partner: Aird & Berlis, Solicitors

Director: The Becker Milk Company Limited, Euclid Canada Limited

O.E.B. Low, Q.C.°
Private Investor

Counsel: Low, Murchison, Burns, Thomas & McCay, Solicitors

C.S. MacNaughton°•
Director: Canadian Cable Systems Limited, Canadian Canners Limited, Laidlaw Transportation Limited, Redpath Industries Limited

F.H. Newman, P.Eng.†
Chairman and Chief Executive Officer: Newman Bros. Limited

R.F. Phillips, F.C.A.°
Chairman of the Board and Chief Executive Officer: Home Oil Company Limited

Chairman of the Board and Director: Scurry-Rainbow Oil Limited

Director: Air Canada, Calgary Power Limited, Crown Trust Company, The Commercial Life Assurance Company of Canada, The Halifax Insurance Company

R.S. Hurlbut*•
Chairman of the Board and President: General Foods Limited, Chairman of the Board: Canterbury Foods Limited, Hostess Food Products Limited, Industrial Catering Limited, White Spot Limited

Director: North American Life Assurance Company, Northern Telecom Limited, Rio Algom Limited

G.E. Jackson†
Senior Vice-President: Reed Stenhouse Limited

Director: Monarch Investments Limited, Reed Stenhouse Limited

Mrs. A.F.W. Plumptre†
Consultant

Director: Canada Life Assurance Company, Canada Permanent Trust Company, Canada Permanent Mortgage Company, Dominion Stores Limited

Dr. Gail C.A. Cook†
Economic Consultant

Director: The Manufacturers Life Insurance Company

G.C. Gray, F.C.A.•
Chairman of the Board and Chief Executive Officer: A.E. LePage Limited

Director: The Toronto Dominion Bank, Crown Life Insurance Company, Rio Algom Limited, Markborough Properties Limited, Canadian Gypsum Company Limited, Canadian Cablesystems Limited, Coldwell, Banker & Company, McDonald's Restaurants of Canada Limited, Delta Hotels Limited, Royal Insurance Company of Canada

J.K. Grant•
President and Chief Executive Officer: The Quaker Oats Company of Canada Limited

**Executive Committee Member*
°Audit Committee Member
†Pension Committee Member
•Management Resource Committee Member

Officers

J.Douglas Gibson
Chairman of the Board

W.P. Wilder
President and Chief Executive Officer

J.L. Aiken
Senior Vice-President Accounting

K.J. Harry
Senior Vice-President and Chief Financial Officer

R.S. Lougheed
Senior Vice-President Gas Supply

A.R. MacKenzie
Senior Vice-President Administration and Strategic Planning

R.W. Martin
Senior Vice-President Operations

J.I. Cuthill
Vice-President Exploration and Storage

T.E. Gieruszczak
Vice-President Special Projects

G.J. Hills
Vice-President Budgets and Rates

R.I. Jones
Vice-President Strategic Planning

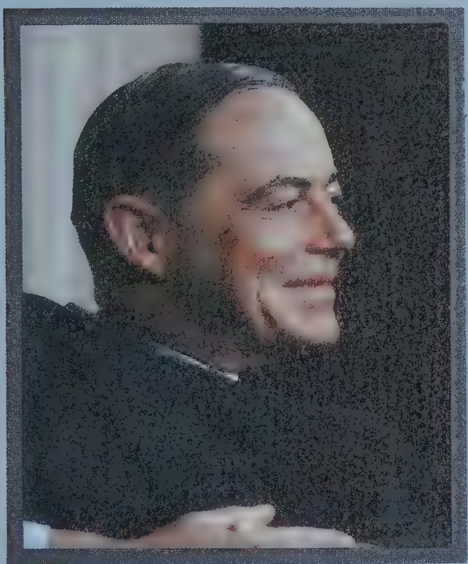
C.F. Safrance
Vice-President System Operations and Engineering

E.W.H. Tremain
Vice-President Corporate Affairs and Corporate Secretary

W.R Fatt
Assistant Treasurer and Assistant Secretary

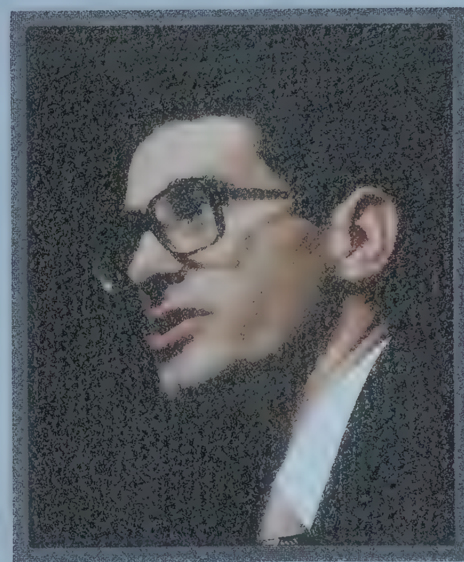
G.T. Waugh
Comptroller

Senior executive group



W.P. Wilder

K.J. Harry



J.L. Aiken

A.R. MacKenzie

R.S. Lougheed

R.W. Martin

Home Oil Company Limited

Directors

R.F. Phillips, F.C.A.
Chairman of the Board and Chief Executive Officer: Home Oil Company Limited

A. M. McIntosh
President and Chief Operating Officer: Home Oil Company Limited

B.A. Carlisle, C.B.E., D.S.C.
Independent Oil Consultant

J.D. Gibson, O.B.E.
Chairman of the Board: The Consumers' Gas Company

A.G.S. Griffin
Corporate Director

A.F. Griffiths
President: Exmore Associates Limited

The Hon. H.W. Hays, P.C.
Member of the Senate of Canada

H.N.R. Jackman
Chairman of the Board: Empire Life Insurance Co.

H.F. LeMieux
Chairman and Chief Executive Officer: Raymond International Inc.

P.L.P. Macdonnell, Q.C.
Partner: firm of Milner & Steer, Solicitors

W.D.C. Mackenzie
President: W.D.C. Mackenzie Consultants Ltd.

A.R. Poyntz
Director: Imperial Life Assurance Company of Canada

A.M. Shoults
President and Chief Executive Officer: B.R.E. Electric Ltd.

W.P. Wilder
President and Chief Executive Officer: The Consumers' Gas Company

Officers

R.F. Phillips, F.C.A.
Chairman of the Board and Chief Executive Officer of Home

A. M. McIntosh
President and Chief Operating Officer of Home

J.P. Crone
Group Vice-President, Corporate

J.H. Geddes
Group Vice-President, Operations

W.H. Waddell
Group Vice-President, Exploration

W.D. Lundberg
Executive Vice-President and General Manager Home Petroleum Corporation

H. Alfaro
Vice-President, Oil and Gas Production

D.E. Deakin
Vice-President and Treasurer

B.F. MacNeill
Vice-President, Finance

B.J. Todesco
Vice-President and General Counsel

R.G. Watkins
Vice-President, Corporate Development

E. Jorgensen
Comptroller

T.S. Hoar
Corporate Secretary

J.A. Petty
Assistant Treasurer

N.F. Shaw
Assistant Secretary

Senior executive group

R.F. Phillips, F.C.A.

A. M. McIntosh

J.H. Geddes

J.P. Crone

W.D. Lundberg

W.H. Waddell

Corporate information

Common Share information (Shares are listed on the Toronto and Montreal Stock Exchanges)

	1979	1978	1977	1976	1975
Shares authorized	**75,000,000**	75,000,000	75,000,000	75,000,000	75,000,000
Shares issued at September 30	**21,003,393**	20,669,084	20,652,710	20,643,544	20,643,344
Weighted average number of common shares outstanding during the year	**20,880,203**	20,658,821	20,645,459	20,643,424	18,219,408
Dividends declared per share	**$1.32**	$1.14	$1.08	$1.00	$1.00
Number of Shareholders at September 30	**29,256**	30,220	30,097	29,745	29,517
Distribution of Shares at September 30					
Canada	**97.9%**	98.0%	97.8%	98.0%	97.9%
Other	**2.1%**	2.0%	2.2%	2.0%	2.1%

The Consumers' Gas Company

Incorporated under the laws of the Province of Canada March 23, 1848 and continued as if incorporated under the laws of the Province of Ontario

Head office
Suite 4200, 1 First Canadian Place, P.O. Box 90, Toronto, Ontario M5X 1C5

Registrar and Transfer Agents

Common Shares and Preference Shares, Group 1

Canada Permanent Trust Company, 20 Eglinton Ave. West, Toronto, M4R 2E2
and in St. John's, Halifax, Charlottetown, Saint John, Montreal, Winnipeg, Saskatoon, Calgary and Vancouver

Bradford Trust Company, New York

Convertible Preference Shares, Group 3

The Canada Trust Company, 110 Yonge St., Toronto M5C 1T4
and in Halifax, Montreal, Winnipeg, Regina, Calgary and Vancouver

Convertible Preference Shares, Group 5

Canada Permanent Trust Company, 20 Eglinton Ave. West, Toronto, M4R 2E2
and in Halifax, Montreal, Winnipeg, Saskatoon, Calgary and Vancouver

Trustee and Registrar

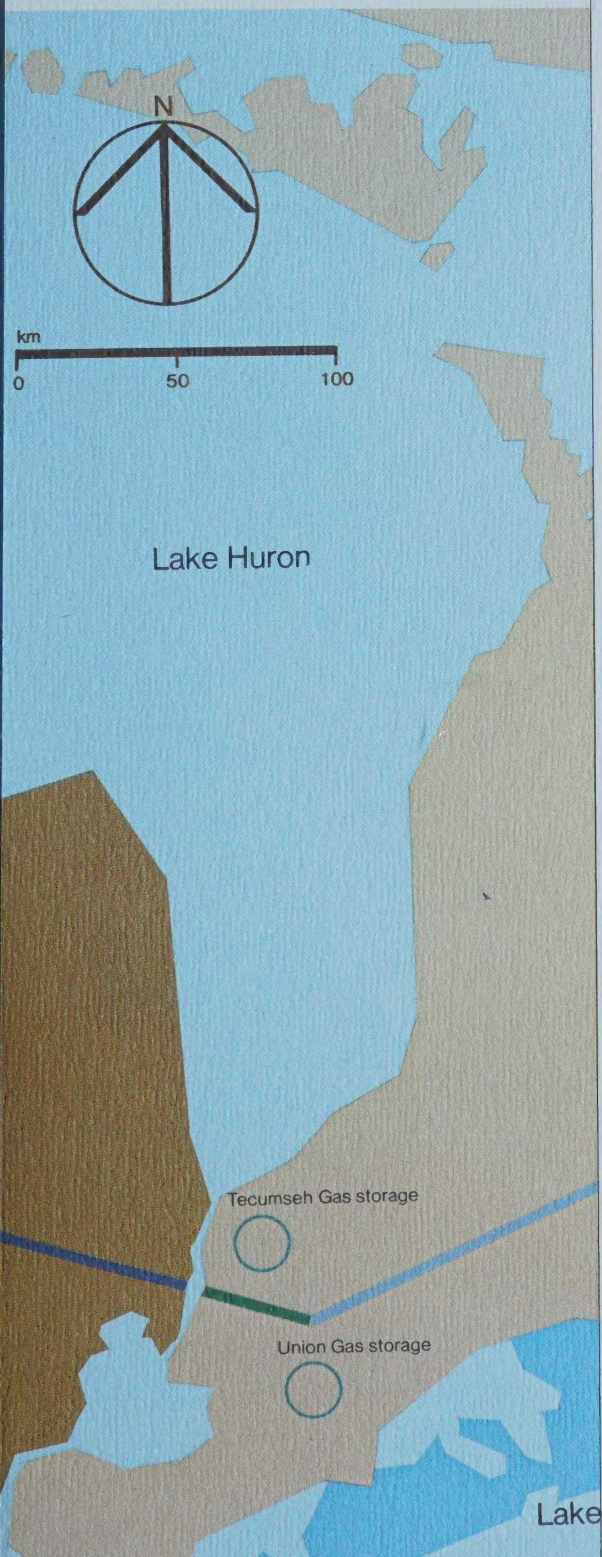
Bonds
5½%, 4.85%, 8⅝%, 8%, 8¾%, 9⅛%, 11⅜%, 11½% and 10⅞% First Mortgage Sinking Fund Bonds
Canada Permanent Trust Company, 20 Eglinton Ave. West, Toronto M4R 2E2

Debentures
7%, 6½%, 6%, 6¼%, 6⅛% and 8½% Sinking Fund Debentures
Crown Trust Company
302 Bay St., Toronto M5H 2P4

Debentures
8⅝%, 9.60% and 10.45% Sinking Fund Debentures
National Trust Company, Limited
21 King St. East, Toronto M5C 1B3

Convertible Debentures
6% Convertible Sinking Fund Debentures
The Royal Trust Company, Royal Trust Tower, Toronto-Dominion Centre, Toronto M5W 1P9

Consumers' Gas and subsidiaries service area



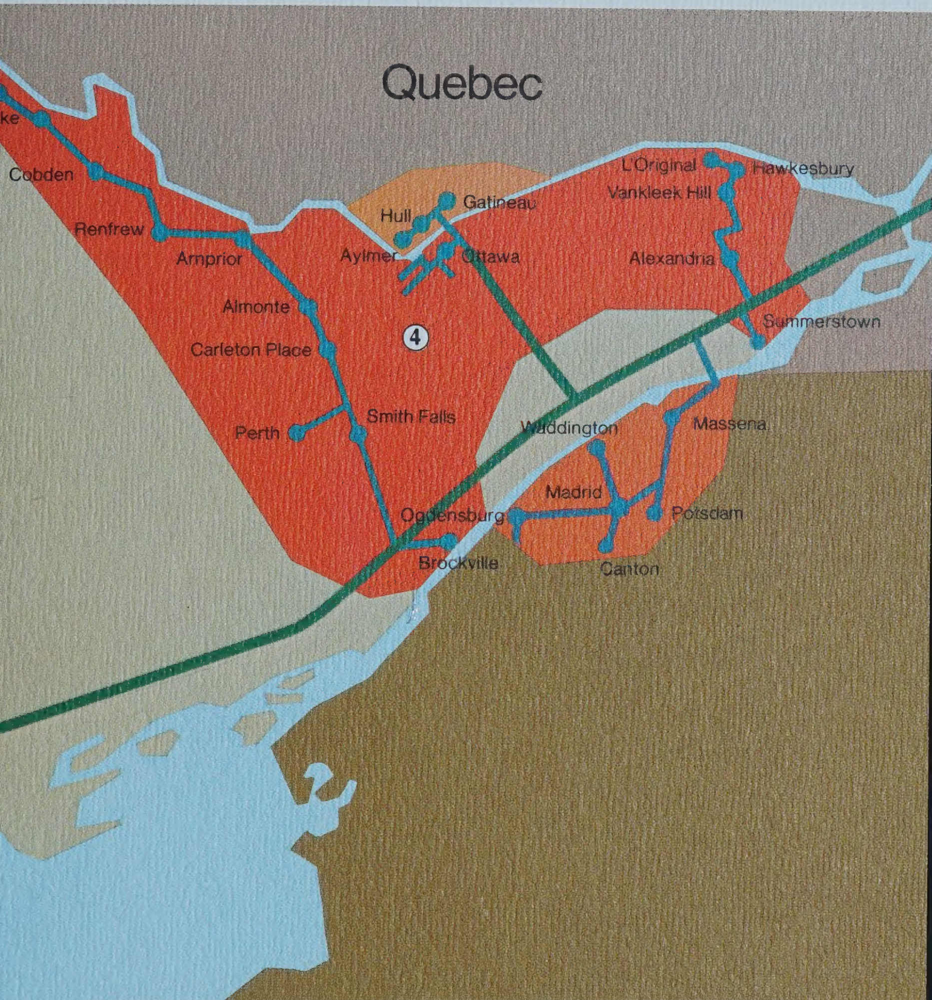
The operations of the Company are carried out primarily through the following subsidiary companies:

Natural gas operations
The Consumers' Gas Company
Tecumseh Gas Storage Limited
Société Gazifère de Hull, Inc.
St. Lawrence Gas Company, Inc.
Niagara Gas Transmission Limited
Shorgas Limited

Oil and gas exploration, development and production
Home Oil Company Limited
Scurry-Rainbow Oil Limited
Underwater Gas Developers Limited

Consumers' Gas and subsidiaries service area

Offshore exploration acreage
Consumers' distribution system
TransCanada PipeLines
Great Lakes Gas Transmission Company
Union Gas transmission facilities
Underground storage



September 1979	Active customers 1979	Active customers 1970	Sales volumes MMCF 1979	Sales volumes MMCF 1970
① **Metro Toronto region**	272,039	223,222	156,057	80,104
② **Western region**	81,562	35,069	34,614	16,875
③ **Central region**				
Georgian Bay District	15,912	7,124	7,324	4,178
North Central District	29,855	11,299	10,011	3,951
East Central District	35,556	17,128	13,766	6,561
Total Central region	81,323	35,551	31,101	14,690
④ **Eastern region**				
Ottawa Gas	38,717	15,881	23,859	12,225
Gazifère de Hull	7,589	4,816	4,772	1,246
St. Lawrence Gas	9,563	8,170	6,383	5,565
Total Eastern region	55,869	28,867	35,014	19,036
⑤ **Provincial region**	97,385	73,960	46,810	30,755

Consumers' Gas

SUITE 4200
1 FIRST CANADIAN PLACE
P.O. BOX 90
TORONTO • ONTARIO M5X 1C5